

PO-CH/NL/0059

PART F

Part. F.

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Begins: 22/5/84.
Ends: 29/5/84.



PO -CH /NL/0059



PART F

Chancellor's (Lawson) Papers:

LONDON ECONOMIC SUMMIT
JUNE 1984

PO -CH /NL/0059

-CH

PO

PART F

Disposal Directions 25 Years

[Signature]

21/7/95.

JG
Spore - Mr PeretzFROM: J.G.LITTLER
DATE: 22 MAY, 1984CHANCELLORcc Chief Secretary
Economic Secretary
Sir Peter Middleton
Sir Terence Burns
Mr. Unwin
Mr. Battishill
Mr. Lavelle
Mr. Mountfield
Mr. Bottrill
Mr. KellySUMMIT: MEETING WITH P.M. ON 23 MAY

There are four papers for the meeting.

Draft Economic Declaration

2. The latest version, drafted jointly by Sir Peter Middleton and Sir Robert Armstrong, has received a tick from the Prime Minister. I have only one comment, on the sentence in square brackets at the end of paragraph 4 to which you have already drawn attention. We hope for a better text with the help of Regan. (As Mr. Peretz may have told you, Sprinkel handed me a paper as we were leaving the dinner in Rome, and with a press of people around I simply slipped it into my pocket. Only later did I discover that it must have been the wrong paper - his copy of the draft G.10 communique! He is still in Rome where I cannot get at him, and I have been in touch with his office to ensure that he sends me the right text as quickly as possible on his return tomorrow or Thursday.)

Draft London Charter

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Draft on International Terrorism

4. I have no comments.

Draft Keynote Speech

5. This is my second draft, reflecting some improvements in the light of your comments on the first shot.

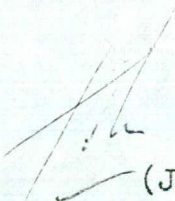
Report from Personal Representatives

6. We are promised, but I have not yet received, a report on the meeting which Sir Robert Armstrong held on Sunday and yesterday. I attended the lunch on Sunday, in order to report briefly on the OECD and G.10 meetings. No problem on either of those.

7. In the course of the discussion, there was some reference to debt, as a subject which the G.10 seemed not to be including. I commented that it did not fit in the terms of the remit on international monetary reform, but was very much in the minds of all the Ministers present. In subsequent discussion, I at one point asked whether there was a general view that the Summit ought to produce a statement on international debt, beyond the kind of thing included in the draft Economic Declaration. This provoked a passionate outburst from Attali, to the effect that the Summit was a matter for Heads of Government and they were not going to be dictated to in the form of drafts by officials, Finance Ministers, or anybody else other than themselves and the Personal Representatives. Nobody argued - I think they are all well accustomed to Attali - and I said that I was working on the assumption that Finance Ministers would regard it as their duty to discuss such an important subject as international debt, and that I would expect you to wish to report their views.

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(J. G. LITTLER)



10 DOWNING STREET

CH/EXCHEQUER	
22 MAY 1984	
ACTION	MR HITTLER
Copies TO	CST, EST
	SIR P. MIDDLETON
	SIR T. BUENS
	MR UNWIN, MR LAVELLE
	MR MOUNTFIELD
	MR BOTTRILL
	MR C. KELLY

JLS.

From the Private Secretary

SIR ROBERT ARMSTRONG

LONDON ECONOMIC SUMMIT: MR BOTTRILL
LUNCH ARRANGEMENTS MR C. KELLY

Thank you for your minute of 21 May (ref A084/1523). As I told Mr. Hatfield on the telephone this morning, the Prime Minister agrees with the recommendations in your fourth paragraph.

I am copying this minute to Mr. Ricketts (Foreign and Commonwealth Office) and Mr. Peretz (H.M. Treasury).

A. J. COLES

22 May 1984

PERMITS/C. OFFICE	
23 MAY 1984	
Action	MR BOTTRILL

CONFIDENTIAL

pyg

Cabinet Office
70 Whitehall
London SW1A 7AS

22 May 1984

cc PPS
PS(84) 10 PS/ECONOMIC SEC

SIR T BURNS	MR LITTLE	MR BEASTALL	MR CONN
MR LINNIN	MR BATTISHELL	MR MOUNTFIELD	MR KELLY
MR LAVELLE	MR JEDGWILL	MR C ALLAN	MR ROBSON
		MRS CASE	MR I P WILSON

Dear Private Secretary,

London Economic Summit: 7-9 June 1984

With my letter of 9 May (PS(84) 9) I attached at Annex A a list of briefs to be prepared for the London Economic Summit early next month. This list has been revised. I attach the revised list and should be grateful if briefs are prepared accordingly.

The deadline for briefs to reach the Cabinet Office remains 12.00 noon on Thursday 24 May as I requested in PS(84) 9.

I am sending copies of this letter to the Private Secretaries to Sir Antony Acland, Sir Peter Middleton, Sir Anthony Rawlinson, Sir Kenneth Stowe, Sir George Moseley, Sir Brian Hayes, Sir Clive Whitmore, Sir Brian Cubbon, Sir Kenneth Couzens, Sir Michael Franklin, Mr M E Quinlan, Mr R J Andrew and Dr Robin Nicholson, and to John Coles at No 10.

Yours sincerely

(Signed) LINDSAY WILKINSON (Miss)

CONFIDENTIAL

LIST OF BRIEFS FOR LONDON ECONOMIC SUMMIT
7-9 JUNE 1984

<u>FMV(84)</u>	<u>Subject</u>	<u>Lead Department</u>	<u>In consultation with</u>
1.	Steering Brief	Cabinet Office	FCO
<u>Economic Subjects</u>			
2.	Thematic Paper and British Initiatives	Cabinet Office	FCO
3.	World Economy: Economic and Monetary Policies	Treasury	FCO DTI
4.	International Monetary Matters	Treasury	FCO DTI
5.	Trade	DTI	FCO Transport Treasury
6.	(a) International Debt Problems (b) Developing Country Issues	Treasury FCO	FCO Treasury DTI ODA
7.	Energy	Energy	FCO
8.	East/West Economic Relations	FCO	as appropriate
9.	Impact of Technology	Cabinet Office	DTI Treasury < FCO
10.	Environmental Issues	FCO	-
<u>Political Subjects</u>			
11.	Terrorism	FCO	as appropriate
12.	East/West relations		
	(a) Position and attitudes of the Soviet leadership	FCO	as appropriate
	(b) Policies of the States participating in the Summit towards the USSR and its allies	FCO	as appropriate
13.	Arms control and disarmament		
	(a) Nuclear issues	FCO	as appropriate
	(b) Non-nuclear issues	FCO	as appropriate

FMV (84)

	<u>Subject</u>	<u>Lead Department</u>	<u>In consultation with</u>
14.	Non-proliferation	FCO	as appropriate
15.	Specific regional situations:		
	- Iran/Iraq	FCO	as appropriate
	- Middle East	FCO	as appropriate
	- Afghanistan	FCO	as appropriate
	- Central America	FCO	as appropriate
	- Southern America	FCO	as appropriate
	- South East Asia	FCO	as appropriate
	- Far East (including China, Korean Peninsula)	FCO	as appropriate
16.	Other Issues:		
	(a) Acid Rain	DOE	-
	(b) Life Sciences	Cabinet Office	-
	(c) United States Manned Space Station	FCO	as appropriate
	(d) Hong Kong	FCO	as appropriate
	(e) Falklands/Argentina	FCO	as appropriate
	(f) Gibraltar	FCO	as appropriate
<u>Others</u>			
17.	1985 Summit (including participation)	FCO	as appropriate
18.	Bilaterals (excluding United States/Japan)	FCO	as appropriate
19.	Statistics	Treasury	-
20.	Personality Notes	FCO	-



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TO IMMEDIATE BONN
TELEGRAM NUMBER 290 OF 22 MAY 1984
AND TO IMMEDIATE OTTAWA, PARIS, ROME, TOKYO, WASHINGTON, UKREP
BRUSSELS

LONDON ECONOMIC SUMMIT

PLEASE PASS SOONEST TO CHANCELLOR'S PERSONAL REPRESENTATIVE,
DR TIETMEYER (COPY ADDRESSEES PLEASE PASS TO OTHER PERSONAL
REPRESENTATIVES: MARCHAND (CANADA), ATTALI (FRANCE), RUGGIERO
(ITALY), MOTONO (JAPAN), WALLIS (US) AND DURIEUX (COMMISSION))

1. THEMATIC PAPER PARAGRAPH 14.10 SHOULD READ '... CONSIDER
WHAT HAS BEEN DONE SO FAR AND IDENTIFY SPECIFIC (SPECIFIC)
AREAS FOR RESEARCH ...'
2. ERROR REGRETTED.

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DEF D
ACDD
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PS/LADY YOUNG
PS/MR RIFKIND
PS/MR WHITNEY
PS/MR RAISON
PS/PUS

SIR C TICKELL
SIR J BULLARD
MR RENWICK
MR J THOMAS
MR WILSON
MR WRIGHT
MR CARTLEDGE
MR ADAMS
MR BARRINGTON
BUCKINGHAM PALACE

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158

FROM: J.G.LITTLER
DATE: 22 MAY, 1984

CHANCELLOR

- cc Chief Secretary
- Economic Secretary
- Sir Peter Middleton
- Sir Terence Burns
- Mr. Unwin
- Mr. Battishill
- Mr. Lavelle
- Mr. Mountfield
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have it version attached has a revised sentence following from of words.

I hadn't yet - & now don't need to!

MLP

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(J. G. LITTLER)

FROM: J.G.LITTLE
DATE: 16 MAY, 1984

SIR PETER MIDDLETON

cc Mr.Unwin
Mr.Lavelle
Mr.Mountfield

Sir William Ryrie, ODA
Sir Crispin Tickell, FCO
Mr.Loehnis, B/E

INTERNATIONAL DEBT: SUMMIT

This is the note I promised to you, sketching the briefing line and possible points for agreement at the Summit.

State of Play

2. Part of the briefing will be the latest progress report from the Bank of England (FCO and Bank of England are represented at the Group chaired by Mr.Unwin which processes this). I aim for an up-date just before the Summit. The mass of country material may not be needed by the Prime Minister, but I think the Chancellor will want to have it, and we need to hold it in reserve for any questions which may arise.

3. The key points which I would want to pick out, for Summit discussion, are:-

(a) A great deal of progress has been made since the autumn of 1982: one can specify it under the headings of the impact of world recovery on trade; the extensive adjustment undertaken by many debtors countries, with or without formal IMF programmes; the development of understandings and practices in handling rescheduling, etc., on both public and private fronts.

(b) The continuing difficulty, which looms more dangerously as time elapses, with those countries which are not taking adjustment measures (such as Argentina, Philippines).

(c) The dangers which might emerge from the end-March operation to give temporary relief to Argentina - giving support to Argentine hopes of continual postponement, possibly contributing to potential Latin American solidarity.

(d) Most importantly - in quantity and psychology - the rise in dollar interest costs (combination of high nominal rates and high currency value).

4. For public purposes, the line should be that progress is being made, but the difficulties are well-recognised, that much discussion and action is going on to meet the difficulties, and perhaps that certain particular lines of useful development could be indicated.

Basic Strategy

5. There is much accusation of lack of action and, particularly, lack of strategy. This comes mainly from people who want centralised governmental or international institutional action. And of course there are those who wrongly deny that a "case by case approach" can merit the term "strategy".

6. But the strategy exists and has been in general firmly implemented with good understanding by those concerned. It rests centrally on the adjustment by the debtor country, brings the IMF in to help formulate adjustment programmes, monitor them, and provide a lead and coordination in financial help; the parts to be played by private creditors, commercial banks, governments and multilateral institutions involve occasional squabbles, but the ground-rules are understood.

7. It would be worth restating the strategy publicly, on a note of confidence, and to convince debtors that they cannot opt for an easy way out. It would also be worth confirming the agreement between the major creditor countries represented at the Summit.

Lines of Action

8. Important to be clear that global solutions are out - this is agreed by all Summit countries, except for the French hankering after an allocation of SDR. Also important to make clear that there can be no question of governments stepping in to rescue either debtors or commercial creditors, by actual finance or by guarantee. Governments will play their part in generous rescheduling of official and officially-guaranteed credit, in their support of the IMF and other international institutions, and in encouragement they can give, with central banks, to commercial banks.

9. The particular lines to be pursued can be divided between short-term and longer-term, although the two inevitably merge in places into each other.

Short-Term Action

10. The following:-

(a) Restructuring maturities: there is a developing sense in the financial community that short-term rescheduling of immediate maturities, which inevitably simply creates a hump of debt a few years ahead, while it may be sensible on the first round, ought to be replaced by something more rationally constructed in due course, perhaps especially in the light of, indeed in recognition and encouragement of, progress being made by the debtor. In their recent New York meeting, central banks were unanimous on this; much thinking of commercial banks is moving in this direction and can be encouraged; rescheduling by official creditors tends already to be on average rather more generous, but could be tackled in a similar way.

(b) Interest rates: very dangerous ground for governments to enter into, because of the obvious scope that would give for demands for subsidy or direct relief. But it is encouraging that central banks (and again with evidence of parallel thinking by some commercial banks) are exploring ideas under which the burden of interest costs could be limited if interest rates continued to rise, or in general some top slice of interest might in some circumstances be deferred. If some of these arrangements necessitated some writing down of values in bank balance-sheets, that might be no bad thing.

(c) Realisation of assets: a suggestion which invariably meets a hostile reception from debtor countries. To suggest that they should sell outright the basic natural resources which they hope themselves in future to exploit seems most unlikely to be acceptable, and efforts to campaign for it would be counter-productive. But there are examples (a notable one is Volkswagen in Brazil) where existing industrial and other investments could benefit from permission for increased foreign equity participation. The cash flow would ease the debt burden. The offence to local pride might be much less troublesome in political terms than the additional severity of domestic policies which would otherwise be necessary. The real problem is how far action and talk by creditors can promote a favourable response

from debtors. I am afraid my conclusion is that in general we do best to work quietly, using the opportunities of casual meetings and direct negotiations, but not presenting a "campaign issue".

Longer-Term Ideas

11. These come under the headings of IMF, IBRD and private investment:-

(a) IMF: continued support for IMF action, readiness to provide resources (although no immediate need for anything additional), arrangements to carry IMF monitoring forward for longer than traditional periods (which needs much more technical discussion).

(b) IBRD: quite apart from the current (and we hope temporary) difficulty over the Japanese special subscription and the IDA, I believe there is a need for a substantial general capital increase for the IBRD to be agreed during the next 18 months or so - the earlier the better, but not before the US election. I suggest this partly because it seems to me that the IBRD could and should play a larger part in development financing (taking up some of the gap which has unhappily been filled by short-term bank finance in the past decade or so), partly also because it happens that capital constraints and the accident of cash-flow will have the result that, unless they get a capital increase, the IBRD net provision to developing countries over the next few years will be pitifully small. What I would like to see from the Summit is some general encouragement of the roles of the IBRD, on which we can then build in the necessary discussions between governments and in the IBRD Executive Board.

(c) Direct equity investment: we need all possible encouragement, and can quote a number of examples of debtor countries recently deciding to admit larger foreign participations. We can of course also quote the relative success of countries which have been more open to foreign equity investment within their borders. We cannot make conditions: but there is much that the IMF and Paris Club and commercial banks in their negotiations and general discussions could do to promote the arguments and the idea.

(d) Private portfolio investment: markets are not ready for the resurrection of the foreign bond - at least on any

significant scale and for any wide range of potential borrowers. But some interesting ideas exist - and the IFC in particular have been developing them - for the building up of investment trusts and unit trusts specialising in assets in developing countries, especially the more advanced ones which are also the major debtors. There are rather more remote possibilities that, if such instruments could be developed, holdings could be offered to commercial banks in exchange for some part of existing financial debt.

(e) Catalysing private investment : there is scope to encourage the already existing but modest role of the IBRD and IFC as catalysts in organising investment in developing countries and attracting private equity participations.

Conclusion

12. I return to the point that a difficulty in handling this subject generally in the Summit and other governmental fora is that a great deal of what is needed is action by debtor countries themselves and by commercial creditors and potential private investors; I think the Summit can chart some directions, but we must be wary of pressing too hard or trying to go too far, lest we provoke a hostile response or strengthen demands for direct government action.

E. G. Hillier
for (J. G. LITTLER)

Dictated by Mr. Littler
and signed in his absence

CH/EXCHEQUER	
REC.	22 MAY 1984
ACTION	MR LITTLE ✓
COPIES TO	CST, EST, SIR P. MIDDLETON
	SIR T. BURNS, MR UNWIN
	MR BATTISHILL, MR LAVELLE
	MR MOUNTFIELD, MR BOTTKILL

22/5/84

22/5

Ref. A084/1525

MR COLES

London Economic Summit

This minute reports the state of play on preparations for the London Economic Summit, in the light of developments at the weekend meeting of Personal Representatives at Chevening.

Thematic Paper

2. Much of the time at the meeting was spent considering and amending the draft Thematic Paper. By the end of the meeting we had an agreed final version, which all Personal Representatives will now submit to their Heads of State or Government as a basis for discussion at the Summit. I have submitted the Prime Minister's copy of the Thematic Paper separately.

Draft Economic Declaration

3. I circulated the latest draft Economic Declaration to Personal Representatives halfway through the meeting, making it clear that I was not intending to discuss it in detail - that process would have to take place in London on 8 June, after the plenary session - but that I should welcome their comments on the general form and content. Personal Representatives seemed to be in general content with it, though a number of them pointed out that it would need to be slightly revised to take account of agreed changes in the Thematic Paper. It was agreed that I would circulate a revised version to Personal Representatives by the end of this week. That revised draft would be for their personal use only, and would not be shown to Heads of State or Government: if it was shown to Heads of State or Government before the Summit itself, Heads of State or Government would tend to focus their discussion on the words in the draft rather than on the issues. It was accepted, however, that it would be useful to have a draft available as a basis for the final drafting on the night of 8 June.

REPORT OF
PERSONAL
REPS
MEETING

List of Political Subjects

4. Sir Julian Bullard circulated a list of political subjects (copy attached) which political representatives had identified for possible discussion at the London Economic Summit. Personal Representatives were content with the list, but thought that it would be useful if we could give advance indication of which issues we expected to see discussed by Heads of State or Government and on which occasions at the Summit. Speaking personally, I said that I thought that the Prime Minister would certainly expect to discuss with her colleagues items 1, 2, 3 and 4 on the list, and no doubt Iran/Iraq. I thought that she might well wish to discuss items 3 and 4 (East/West Relations, and Arms Control and Disarmament) on the evening of Thursday 7 June, and she might wish to leave items 1 and 2 (Common Democratic Values, and Terrorism) over until the morning session on Friday 8 June. I hope that the Prime Minister will be able to give instructions on this at her meeting tomorrow.

Draft Declaration on Democratic Values

5. There was general agreement that it would be useful to issue a Declaration on the lines of this draft from the London Economic Summit, coming as it did the day after the commemoration of the Anglo-American landing in Normandy. Some Personal Representatives wondered whether the connection should be explicitly made, but the general feeling was that it should not be made in the document itself: the press would be well aware of the occasion, and, if the Prime Minister wanted, she could perhaps do so in a few impromptu words before reading the Declaration out.

6. There was general agreement that the right time for issuing the Declaration would be at the final ceremony in Guildhall on the afternoon of Saturday 9 June, before the Economic Declaration. Such a Declaration needed a formal occasion, and Guildhall would provide an eminently appropriate setting. One Personal Representative suggested that the Declaration should be shortened and issued as a preamble to the Economic Declaration; others, however, thought that, while it should be read before the Economic Declaration, it should be kept separate from it in view of the reasons for having it.

7. We agreed that, if the Declaration was not to be issued until the afternoon of Saturday 9 June, it should not be discussed by Heads of State or Government until the morning of that day: if it was discussed the previous day, it would be difficult to hold it until the afternoon of 9 June.

8. A number of suggestions were made in the course of discussing the draft Declaration. We promised to revise the draft in the light of the comments, and circulate a revised version by the end of this week. That draft will be shown to Heads of State or Government before the Summit itself. The French Personal Representative insisted that final discussion of the draft should be undertaken at the Summit by Personal Representatives, before the document went for discussion by Heads of State or Government.

Draft Declaration on Terrorism

9. I also circulated this draft halfway through the meeting. When we came to consider it, the French and Italian Personal Representatives made it clear that their Heads of State or Government could not be parties to such a Declaration, and did not wish to see any joint Declaration on the subject of state terrorism. The fact is that both Governments have their own reasons for not wanting to be too beastly to the Libyans. The United States Personal Representative indicated that his Government could go along with a Declaration of the kind proposed; others did not take a position.

10. On the other hand, everybody recognised that Heads of State or Government, and probably also Foreign Ministers, would wish to discuss the threat of international terrorism; and, following the St James's Square episode, the Prime Minister would want to be able to tell the media that it had been discussed. All Personal Representatives were prepared to agree that the Prime Minister should tell the media at the end of the first day that terrorism had been discussed.

11. The French Personal Representative suggested that the Prime Minister could say that of course the subject of international terrorism had been discussed, and Heads of State or Government had considered a number of aspects relating to exchange of information and operational response of a kind for which obviously she would not be able to give details to the press. I said that the Prime Minister would certainly wish to be able to say something which indicated that Heads of State or Government had addressed the particular problems of states-sponsored terrorism, perhaps in the form of an indication that there had been agreement to look carefully at the application of the Vienna Convention. A number of Personal Representatives made it clear that their Heads of State or Government would not wish anything to be said which suggested that the Vienna Convention itself was to be modified.

12. My judgment at the end of the discussion was that there was no possibility of getting agreement to a draft joint Declaration on terrorism, of the kind we had circulated. It seemed to me that, if it became more widely known that an attempt had been made to agree upon such a draft but had failed, that would be the worst of all worlds. I therefore recalled all the copies of the draft Declaration which we had circulated, and said that I should wish to report the discussion to the Prime Minister and consider where we went from here.

13. My recommendation is that we should seek to draft, as a matter of urgency, the text of a statement which the Prime Minister might read to the press at the end of the first day's meetings. The statement should indicate that the subject of international terrorism had been discussed by Heads of State or Government, who had noted with great concern the rising trend in international terrorism. They had discussed the ways in which existing international co-ordination of the response to threats of international terrorism, both among Summit countries and between them and other countries, could be increased and improved; and they had also

discussed how the application of the Vienna Convention should be affected. They were determined to respond with firmness and vigour to the threat of international terrorism, wherever and in whatever form it appeared.

14. It would be useful if we could be given instructions as to how to proceed with this at the Prime Minister's meeting tomorrow.

15. Revised versions of the draft Economic Declaration and of the draft Declaration on Democratic Values are being circulated separately to those attending the Prime Minister's meeting tomorrow.

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



ROBERT ARMSTRONG

22 May 1984

LIST OF POLITICAL SUBJECTS

- (1) Common Democratic Values
- (2) Terrorism
- (3) East/West Relations:
 - (a) Position and attitudes of the Soviet leadership:
 - (b) Policies of States participating in the Summit towards the USSR and its allies.
- (4) Arms control and disarmament:
 - (a) Nuclear issues:
 - (b) Non-nuclear issues
- (5) Non-proliferation
- (6) Regional and Third World issues:
 - (a) General questions, eg: relations with neutral and non-aligned countries; political aspects of North/South relations; handling of regional crises
 - (b) Specific regional situations, eg:
 - Iran/Iraq
 - Middle East
 - Afghanistan
 - Central America
 - Southern Africa
 - South East Asia
 - Far East (including China, Korean Peninsula)

NOTES:

- (I) This is a list of political themes identified during a meeting of officials from participating countries at the British Embassy, Paris on 18 May 1984 for possible discussion at the London Economic Summit
- (II) It is ad referendum to Heads of Delegations and to their Personal Representatives
- (III) It is subject to revision in the light of developments, and the order has no overriding significance
- (IV) The preparation of this list in no way limits the total freedom of Heads of Delegation at the London Summit to discuss whatever subjects they wish, or the freedom of Foreign Ministers under their direction to do likewise.
- (V) The question of whether to issue any public statements/declarations, and if so on what subjects and in what form, is for Heads of Delegation at the Summit to decide.

CONFIDENTIAL

CH/EXCHEQUER	
REC.	22 MAY 1984
ACTION	MR LITTLER 28/5
COPIES TO	CST, EST.
	SIR P. MIDDLETON
	SIR T. BURNS
	MR UNWIN

Ref. A084/1530

MR COLES

London Economic Summit: Economic Declaration

MR BATTISHILL
MR LAVELLE
MR MOUNTFIELD

Your minute of 21 May conveyed the Prime Minister's approval of the draft Economic Declaration attached to my minute of 18 May.

MR BOTTEILL
MR C. KELLY

2. We have now revised the draft in the light of the weekend's discussion by Personal Representatives of the Thematic Paper. The changes are not major, but I should draw attention to the following:

- in paragraph 6, the inclusion of a reference to flexibility in the use and the remuneration of labour (to reflect a general feeling among Personal Representatives that there was a need to loosen and open up wage structures);
- in paragraph 8(2), a reference to job training;
- a recasting of paragraph 8(4) and of paragraph 8(10) to reflect changes in the Thematic Paper agreed at the weekend;
- in paragraph 11, a reference to the Munich conference on the environment;
- in paragraph 13, some additional American words about the virtues of the international manned space station.

3. I am sending copies of this minute and of the revised draft to the Private Secretaries to the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer, the Secretary of State for Trade and Industry, the Secretary of State for Transport and the Home Secretary.

ROBERT ARMSTRONG

ROBERT ARMSTRONG

22 May 1984

ECONOMIC
DECLAR -
ACTION!

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(Draft of 22 May 1984)

THE LONDON ECONOMIC DECLARATION

We, the Heads of State or Government of seven major industrialised countries and the President of the Commission of the European Communities, have gathered in London from 7 to 9 June 1984 at the invitation of the Rt Hon Margaret Thatcher FRS MP, the Prime Minister of the United Kingdom, for the tenth annual Economic Summit.

2. The primary purpose of these meetings is to enable Heads of State or Government to come together to discuss economic problems, prospects and opportunities for our countries and for the world. We have been able to achieve not only closer understanding of each other's positions and views but also a large measure of agreement on our objectives and on the policies to be followed in pursuing them.

3. At our last meeting, in Williamsburg in 1983, we were already able to detect clear signs of recovery from world recession. That recovery can now be seen to be established in many of the industrialised countries. It is the reward for the firm efforts made in the Summit countries and elsewhere over recent years to reduce levels of inflation and of interest rates, to control and where possible bring down fiscal deficits, and to control monetary growth.

4. But its continuation cannot be taken for granted; it requires unremitting efforts. We have to make the most of the opportunities with which we are now presented to reinforce the basis for enduring growth. We need to spread its benefits widely, both within our own countries and also to other countries, including the poorer countries who stand to gain as much as any from a sustainable growth of the world economy. Failure to reduce inflation further and damp down inflationary expectations could put recovery at risk. Prudent monetary and budgetary policies of the kind that have brought us so far will have to be sustained and where necessary strengthened. We reaffirm the commitment of our Governments to those objectives and policies. We welcome the "down payment" measures of the United States Government as an important step in the process of reducing the budget deficit of the United States.

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5. Not the least of our concerns is the growing strain on public expenditure from social insurance provisions in many of the industrialised countries. Those provisions have to be kept within the limits of what our national economies can afford. We welcome the increasing attention being given to these problems by national governments and in international fora such as the Organisation for Economic Co-operation and Development (OECD).

6. To achieve sustained growth, we must make sure that the industrial economies adapt and develop in response to market needs and technological change. We must encourage flexibility in the use and remuneration of labour, and bring about the conditions in which more new jobs will be created on a lasting basis, especially for the young. We need to foster and expand the international trading system and liberalise capital markets.

7. At Williamsburg we defined a strategy for dealing with the debt burdens of many developing countries. In the pursuit of this strategy a key role has been played by the International Monetary Fund, whose resources have been strengthened for the purpose. Debtor countries have been increasingly ready to accept the need to adjust their economic policies. In a climate of world recovery and growing world trade, this strategy should continue to enable the international financial system to manage the problems that may still arise. But a significant rise in levels of international interest rates would both exacerbate the problems of the debtor countries and make it more difficult to sustain the strategy. This underlines the importance of continuing to follow policies which will be conducive to lower interest rates and which take account of the impact of our policies upon other countries.

8. We have therefore agreed -

(1) to continue with and where necessary strengthen policies to reduce inflation and interest rates, and to control budgetary deficits and monetary growth;

(2) to seek to reduce obstacles to the creation of new jobs:

- by encouraging the efficient working of the market;
- by encouraging industrial development in response to market needs and technological change, including in innovative small businesses;
- by encouraging the improvement and extension of job training;
- by discouraging measures to prop up declining industries;
- and by reducing or phasing out subsidies and other assistance which distorts markets;

(3) to study with the appropriate international organisations policies to improve economic efficiency and promote growth, in particular by harmonising standards, encouraging innovation and working for a more widespread acceptance of technological change, and facilitating the mobility of labour and capital;

(4) to invite Finance Ministers to carry forward, as a matter of urgency, their current work on ways to improve the operation of the international monetary system, including exchange rates, surveillance, the creation, control and distribution of international liquidity and the role of the IMF; and by early 1985 to complete the present phase of their work and to make recommendations for next steps, including further international discussion;

(5) to carry forward the procedures agreed at Versailles and at Williamsburg for multilateral monitoring and surveillance;

(6) to seek to improve the operation and stability of the international financial system, by means of prudent and convergent policies among the major countries, by providing an adequate flow of funding to the international financial institutions, and by improving international access to capital markets in industrialised countries;

(7) to confirm the strategy on debt and to continue to implement it flexibly, helping debtor countries to make the necessary economic and financial policy changes, taking due account of political and social difficulties;

(8) to maintain and wherever possible increase flows of resources, including official development assistance, to the developing countries, to find ways of increasing the flow of private investment, and to encourage practical measures in those countries to conserve resources and enhance indigenous food and energy production;

(9) to urge all trading countries to resist continuing protectionist pressures and to reduce barriers to trade and to make renewed efforts to liberalise and expand international trade in services (including shipping) as well as in manufactures and commodities;

(10) to accelerate the completion of current trade liberalisation programmes, in co-operation with other trading partners; to press forward with the work on trade in services in the international fora; and to explore with other GATT partners as quickly as possible the objectives for, the participation in and the timing of a new negotiating round.

9. We note with approval the continuing consensus on the security and other implications of economic relations with Eastern countries, and on the need to continue work on this subject in the appropriate organisations.

10. We welcome the second report of the Working Group on Technology Growth and Employment created by the Versailles Economic Summit, and the progress made in the eighteen areas of co-operation, and invite the Group to pursue further work on technology and the environment, education and employment, adaptation to technological change, trade in technology and the products of technology, and the sharing of major scientific facilities, and to report to Personal Representatives in time for the next Economic Summit.

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11. We recognise the international dimension of environmental problems and the role of environmental factors in economic development. We have therefore decided to invite the Working Group on Technology, Growth and Employment to consider what has been done so far and to identify specific areas for research on the causes, effects and means of limiting environmental pollution of air, water and ground where existing knowledge is inadequate, and to identify possible projects for industrial co-operation to develop cost-effective techniques to reduce environmental damage. The Group is invited to report by 31 December 1984 on these matters. We also welcome the invitation from the Government of the Federal Republic of Germany to other Summit countries to a multilateral conference on the environment in Munich on 24-27 June 1984.

12. We thank the Prime Minister of Japan for his report on the Hakone Conference of Life Sciences and Mankind, organised by the Japan Foundation in March 1984, and welcome the intention of the French Government to sponsor a second Conference in 1985.

13. We welcome the invitation from the United States Administration to other Summit countries to participate in the development of an international manned space station, noting that a space station would be an example of the kind of programme that provides a stimulus for technological development leading to strengthened economies and improved quality of life. Other Summit countries will actively examine the possibility of accepting the invitation, having regard to their own space programmes. We welcome the intention of the United States Administration to report at the next Summit on international participation in the programme.

[14. We have agreed to meet again next year and have accepted the Federal Chancellor's invitation to meet in the Federal Republic of Germany.]

London

9 June 1984

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CH/EXCHEQUER	
REC.	22 MAY 1984
ACTION	MR LITTLE ✓
COPIES TO	CST, EST
	SIR P. MIDDLETON
	SIR T. BURNS
	MR UNWIN

225

Ref. A084/1531

MR COLES

London Economic Summit: Statement on Democratic Values

I attach a revised version of the "London Charter", taking account of amendments proposed in discussion at the weekend meeting of Personal Representatives.

MR BATTISHILL
MR LAVELLE
MR MOUNTFRED
MR BOTTRILL
MR C. KELLY

2. The main changes are:

- in paragraph 2, a specific reference to human rights;
- in paragraph 4, the inclusion of references to certain social objectives;
- in paragraph 5, a sentence about the moral obligations of prosperity (reflecting American suggestions);
- in paragraph 6, a recasting of the second sentence to reflect the position both of those participants who are NATO allies and of those who have purely national defence obligations.

3. The earlier draft contained in paragraph 6 a sentence which said:

"We reaffirm the statement made at Williamsburg in May 1984 on defence and disarmament".

The French Personal Representative objected to any reference to this statement, and I have excluded it from the revised draft. If it was felt to be important to retain some reference to the statement, I judge that the French Representative would accept a reference which did not seek to describe the contents of the statement: some such sentence as:

"We reaffirm the statement made at Williamsburg in May 1983".

4. I am sending copies of this minute and of the revised draft "London Charter" to the Private Secretaries to the Foreign and Commonwealth Secretary and the Chancellor of the Exchequer.

ROBERT ARMSTRONG

ROBERT ARMSTRONG

22 May 1984

DEMOCRATIC VALUES

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REVISED DRAFT

THE LONDON CHARTER

We, the Heads of State and Government of Seven major industrial countries with the President of the Commission of the European Communities, assembled in London for the Tenth Economic Summit meeting, affirm our commitment to the values which sustain and bring together our societies.

2. We believe in a rule of law which respects and protects without fear or favour the human and civil rights and liberties of every citizen, and provides the setting in which the human spirit can develop in freedom and diversity.

3. We believe in a system of democracy which ensures genuine choice in elections freely held, free expression of opinion with full respect for dissent, and capacity to respond and adapt to change in all its aspects.

4. We believe in economic systems which provide the best possible conditions for enterprise to promote sustained economic growth, social progress, full employment and education in a healthy environment and in which the fruits of innovation, imagination and scientific discovery can best be applied to the benefit of all.

5. We believe in close partnership with each other in the conviction that this will reinforce political and economic stability in the world as a whole. We look for co-operation with all countries on the basis of respect for their independence and territorial integrity, regardless of differences between political, economic and social systems. We acknowledge the moral responsibilities that go with economic success, and reaffirm our keen concern about the problems of hunger and poverty in the world and our determination to help those who most need it.

6. We believe in the overriding need for peace between the peoples of the world. Each of us rejects the use of force as a means of settling disputes: each of us will maintain only the military strength necessary to deter aggression and to meet our national and international obligations for effective defence. Our dedication to the rule of law, democracy and individual freedom is a guarantee of our commitment to closer and more open international relationships.

7. Strong in these beliefs, our countries are endowed with unrivalled diversity and creative vigour. With such a heritage we look forward to the future with confidence.

CH/EXCHEQUER	
REC.	22 MAY 1984
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	SIR T. BURNS
	MR. UNWIN

ARMSTRONG
→ COLES
22/5

Ref.A084/1526

MR COLES

London Economic Summit: Thematic Paper

MR LAVELLE
MR MOUNTFIELD
MR BOTTRILL
MR C. KELLY

At this weekend's meeting Personal Representatives considered the draft Thematic Paper and, with various amendments, agreed it for submission to Heads of State or Government. Each Personal Representative will now submit it to his own Head of State or Government.

2. I submit the Prime Minister's copy herewith. There are a number of minor drafting changes, of no great significance. Significant changes include:

- an additional sub-paragraph on the provision of overseas development assistance to developing countries, with special reference to the poorest (14.7);
- a new version of the sub-paragraph on a new GATT round, reflecting the outcome of the OECD Ministerial meeting last week (14.9);
- the Prime Minister's initiative on the environment (14.10);
- an invitation to Heads of State or Government to consider what to say about the North-South dialogue (15);
- a reference to a forthcoming conference in Munich on the environment (20).

No

3. I am sending copies of this minute and the Thematic Paper to the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer, the Secretary of State for Trade and Industry, the Secretary of State for Transport and the Secretary of State for the Environment.

ROBERT ARMSTRONG

ROBERT ARMSTRONG

22 May 1984

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LONDON ECONOMIC SUMMIT
7-9 JUNE 1984

THEMATIC PAPER

THEMATIC
PAPER

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Chevening, Kent
21 May 1984

Introduction and Background

1. Through successive recent Summits, governments have worked to bring down levels of inflation, nationally and internationally, to promote soundly-based growth in their own countries and to spread the benefits more widely, and to promote greater stability in international monetary and exchange conditions. Over the past two years, inflation has fallen and output has begun to recover, particularly strongly in the United States but also in other industrialised countries.

2. The main concerns are now: to reinforce the basis for enduring growth, without provoking a resurgence of inflation, and to continue to spread its benefits; to make sure that the industrial economies develop flexibly and in response to market needs and technological change; to create conditions conducive to lower interest rates; to encourage flexible labour policies; by these and other means to create conditions for a sustained improvement in employment, especially for the young; to promote improvement of the functioning of the international monetary system; to strengthen and liberalise the international trading system and capital markets; to continue to manage international debt problems in ways which both meet the needs of the debtor countries and protect the viability of the international financial system; to promote and encourage conditions for adequate financial flows to non-industrialised countries; and to co-operate with those countries in their efforts to place their economies on a more secure and self-reliant basis.

3. In many respects, the recovery in the industrialised nations is more soundly-based than in some previous cycles, founded as it is upon real and often painful structural changes against a background of firm efforts in most countries to reduce underlying fiscal deficits and control monetary growth. But its continuation cannot be taken for granted; it requires unremitting efforts. In the industrialised countries, failure to sustain policies to reduce inflation and damp down inflationary expectations could put recovery at risk. Many other countries, including relatively advanced economies with substantial debt burdens as well as persistently low income countries, are still encountering severe difficulties.

4. The main developments over the past year have been -

- 4.1 - economic growth - strong in North America, fairly strong in Japan, somewhat less in certain European countries. This variation has helped to avoid some of the pressures seen in earlier, more rapid, recoveries;
- 4.2 - improvements in productivity, meaning that recovery has so far had only a limited impact on employment. Experience on job creation has varied widely in the Summit countries, with a particularly strong rise in employment in the United States (only partly the result of the strong recovery there);
- 4.3 - significant reductions in inflation, although it remains high in some countries;
- 4.4 - a tendency to increasing budget deficits in certain Summit countries but reductions in others;
- 4.5 - a revival in world trade, with a marked rise in the imports of some Summit countries, especially the United States, helping to spread the benefits of the recovery;
- 4.6 - high interest rates, currently rising particularly in the United States;
- 4.7 - continuing strength of the dollar and continuing volatility of certain exchange rates;
- 4.8 - a reduced rate of growth of monetary aggregates;
- 4.9 - substantial imbalances in current account between Summit countries: the United States deficit has increased considerably, the Japanese surplus has been rising, and the Summit countries as a whole have moved in to deficit with the rest of the world. Reductions in current account deficits elsewhere;
- 4.10 - many debtor countries still face substantial debt servicing costs.

5. The situation of the poorest countries, especially in sub-Saharan Africa, remains daunting. Official aid from most of the Summit countries has increased, but its rise is constrained by budgetary pressures. The outcome of negotiations to replenish the International Development Association (IDA) has so far disappointed

many governments.

6. The flexible strategy on debt evolved during the last few years has worked well so far. World economic recovery has been helping the debtor countries but its benefits will be impaired if interest rates continue to rise. An increasing number of debtor countries have accepted the need to adjust their economic policies, and are seeing the benefits. A key role has been played by the IMF, whose resources have been strengthened. But there is still a long way to go.

7. Some progress has been made in implementing the commitments to resist and reverse protectionism made last year at the OECD Ministerial meeting and at Williamsburg. All Summit governments have agreed to accelerate implementation of the Tokyo Round and to ease restrictions on imports from the poorest countries. Nevertheless, there has been no general easing of protectionist pressures and demands for new protectionist measures persist. Little has been done either in the industrialised countries or in the newly industrialised countries to dismantle trade barriers or to reduce internal constraints on competition.

8. Oil prices have remained relatively stable during the year but the market balance is fragile because of current political factors. Other commodity prices have risen modestly.

Prospects

9. Most forecasters expect that on present policies the recovery in the Summit countries should continue, at least for the foreseeable future. Output in North America may rise more slowly after the rapid recent increases, reflecting a return to more sustainable growth; activity in Japan and the European economies should strengthen. Unemployment seems likely to fall further in the United States, but elsewhere the recovery may in the short term bring little or no reduction, particularly where market rigidities persist or where there is short run unemployment caused by structural adjustments. In this situation, and given prudent monetary policies, it should be possible to avoid an early resurgence of

inflation. Recovery combined with present fiscal policies should help to limit budget deficits in most countries; in the United States the Administration, with its "down payment" measures, has taken an important step in the process of reducing the budget deficit.

10. Prospects for interest rates are uncertain but disquieting. Interest rates have recently been rising, particularly strongly in the United States. Among the factors to which this is attributed are : inflationary expectations, inappropriate monetary policies, rapidly expanding growth, availability of higher rates of return than those on fixed interest assets, and the budgetary deficit. Elsewhere, further progress in curbing inflation and budget deficits may ease interest rate pressures.

11. Exchange rate prospects are also uncertain. The influence on the United States dollar of the level of the current United States balance of payments deficit could be offset by the high rate of return on assets in the United States. Japan's growing surplus and strong macroeconomic performance could lead to upward pressure on the yen, especially in view of recent and pending liberalisation of its capital markets. The maintenance of a high degree of stability of exchange rates in the EMS, brought about by a greater degree of convergence in policies, will depend on the continuing success of the countries concerned in bringing their inflation rates together at a low level.

12. Current account imbalances among Summit countries could increase. Rising exports and higher commodity prices will go some way to help many of the non-oil developing countries to service their debts and reduce their current account deficits. The prospect that the increase in energy demand will be only modest should help towards achieving stable oil prices, leaving aside political factors.

Medium Term Objectives and Policies

13. We have the opportunity to move to a period of sustained growth. If this is to be achieved, Summit countries need to set themselves a common range of medium-term objectives, and to take account of the impact of their policies on each other and on the rest of the world. Other countries and groups of countries have already expressed their concern in this respect. The objectives are

- 13.1 - to continue to pursue, and where necessary to strengthen, appropriate monetary policies, supported by strict control of public expenditure and fiscal deficits, aiming at still lower rates of inflation. Especially firm action will be needed in countries where inflation remains relatively high;
- 13.2 - to create the conditions for lower nominal and real interest rates. It will be important to reduce inflationary expectations. Structural budget deficits need to be reduced;
- 13.3 - to ensure that, as demand expands, the unemployed are drawn into productive employment; this will also reduce the strains on public expenditure from social insurance provisions, which seem likely otherwise to rise to insupportable levels in many industrialised countries. A major objective will be to reduce obstacles to higher employment by encouraging industrial adaptation, job training and flexibility in the use of labour and in wage structures, discouraging measures to prop up declining industries, and reducing or phasing out subsidies and other assistance which distorts markets;
- 13.4 - to promote conditions for the development of new technologies, in traditional as well as in new industries, and to encourage international technical co-operation and trade in the products of high technology and a more rapid and widespread acceptance of technological change;
- 13.5 - to promote conditions which favour productive investment and private enterprise, including in innovative small businesses;

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- 13.6 - to make renewed efforts to liberalise and expand trade, in services as well as in manufactures and commodities;
- 13.7 - to maintain and wherever possible increase flows of resources, including official development assistance, to the developing countries, especially to the poorest countries; and to encourage practical measures to conserve resources and enhance indigenous food and energy production;
- 13.8 - to find ways of increasing the flow of private investment, through the progressive removal of impediments to capital flows and by encouraging a climate of confidence for investment;
- 13.9 - to adapt and improve the operation of the international financial system. This entails creating a more stable medium term financial environment by prudent and convergent policies and performance among the major countries, providing an adequate flow of funding to the international financial institutions and removing restrictions on and improving international access to capital markets in industrialised countries;
- 13.10 - to assist debtor countries in making the necessary economic and financial adjustments, taking due account of political and social difficulties; for them as for the industrialised countries, success will depend on sustained world recovery and adequate but not excessive world liquidity;
- 13.11 - to pursue policies which will avoid, wherever possible, sudden and de-stabilising movements in either direction in international oil markets;
- 13.12 - to recognise the international dimension of environmental problems and the role of environmental factors in economic development; to promote research into the causes, effects and means of limiting pollution; and, particularly in the light of such research, to make greater national and international efforts to reduce, as far as practicable, the pollution of air, water and ground.

Immediate Measures

14. In order to attain these objectives within a framework of sustained growth and promotion of employment, Summit countries can agree on the following measures -

- 14.1 - to make further progress on prudent fiscal and monetary policies, so as to achieve lower inflation and interest rates and greater exchange rate stability; and in particular to carry forward and develop as appropriate the agreed procedures for multilateral monitoring and surveillance of national economic and financial policies;
- 14.2 - to support and strengthen work in the appropriate international organisations, notably the OECD, on policies to improve economic efficiency, incentives and flexibility and to consider how understanding of the sources and patterns of economic change can be improved;
- 14.3 - to reduce obstacles to growth, in particular by encouraging productive investment, harmonising international standards, creating a climate for and stimulating innovation and adaptation, encouraging job training, facilitating the mobility of labour and capital and flexibility in wage structures, and increasing public understanding and acceptance of the need for technological development;
- 14.4 - to invite Finance Ministers to carry forward, as a matter of urgency, their current work on ways to improve the operation of the international monetary system, including exchange rates, surveillance, the creation, control and distribution of international liquidity and the role of the IMF; and by early 1985 to complete the present phase of their work and to make recommendations for next steps, including further international discussion;

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- 14.5 - to confirm the strategy on debt and to continue to implement it flexibly, welcoming the progress made by many debtor countries and the extensive international co-operation which has supported them, and recognising that continued recovery, lower interest rates and trade liberalisation will be important for further progress;
- 14.6 - to develop arrangements which could foster renewed economic progress by debtor countries and strengthen their credit standing. These include the encouragement of private direct investment and continuing flexibility in commercial bank lending; closer co-operation between the IMF and the IBRD; IBRD operations which can help to attract long-term capital investment; and improvements where necessary in the official supervision of lending by commercial banks;
- 14.7 - to provide adequate flows of official development assistance, including that channelled through the IDA, with special attention to the needs of the poorest countries, particularly those in Sub-Saharan Africa;
- 14.8 - to urge all trading countries to resist continuing protectionist pressures and to reduce barriers to trade;
- 14.9 - to accelerate the completion of current trade liberalisation programmes, in cooperation with other trading partners; to press forward with the work on trade in services in the international fora; and to explore with other GATT partners as quickly as possible the objectives for, the participation in and the timing of a new negotiating round;
- 14.10 - to invite the Working Group in Technology, Growth and Employment, to :
- consider what has been done so far and identify special areas for research on the causes, effects and means of limiting environmental pollution where existing knowledge is inadequate;
 - identify possible projects for industrial cooperation to develop cost-effective techniques to reduce environmental damage;
- and to report by 31 December 1984.

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North/South Relations

15. In the light of the foregoing, Heads of State or Government may wish to consider what position the London Summit should take in relation to proposals for pursuing the so-called North-South dialogue.

no?

East/West Economic Relations

16. The Summit countries note, with approval, the continuing consensus on the security and other implications of economic relations with Eastern countries, and on the need to pursue the continuing work on this subject in the appropriate organisations.

Science, Technology and the Environment

17. The Summit countries welcome the report of the Working Group on Technology, Growth and Employment created by the Versailles Summit, and the progress made in the 18 areas of co-operation launched following that Summit. They invite the Group to pursue further work on technology and the environment, education and employment, adaptation to technological change, trade in technology and the products of technology, and the sharing of major scientific facilities, and to report to Personal Representatives in time for the next Economic Summit.

18. The Summit countries thank Prime Minister Nakasone for his report on the Hakone Conference on Life Sciences and Mankind, organised by the Japan Foundation in March 1984, and welcome the intention of the French Government to host a follow-up Conference in 1985.

19. They welcome the invitation from the United States Administration to other Summit countries to participate in the development of an international manned space station. They note that a space station would be an example of the kind of programme that provides a stimulus for technological development leading to

strengthened economies and improved quality of life. They agree that other Summit countries will actively examine the possibility of accepting the invitation, having regard to their own space programmes. They welcome the intention of the United States Administration to report at the next Summit on international participation in the programme.

20. The Summit countries also welcome the invitation from the Government of the Federal Republic of Germany to other Summit countries to a multilateral conference on the environment in Munich on 24-27 June 1984.

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CH/EXCHEQUER	
REC.	22 MAY 1984
ACTION	MR LITTLE ✓
COPIES TO	CST, EST
	SIR P. MIDDLETON
	SIR T. BURNS
	MR UNWIN

MR BATTISILL
 MR LAVELLE
 MR MOUNTFIELD
 MR BOTTRILL
 MR C. KELLY

Ref. A084/1532

MR COLES

London Economic Summit: Prime Minister's
Keynote Speech

I attach a revised draft of the Prime Minister's Keynote Speech, taking account of comments made since my minute of 15 May.

2. The only change from the previous draft is an amendment of paragraph 12 to incorporate a reference to the Prime Minister's initiative on the environment.

3. I am sending copies of this minute and of the revised draft of the Keynote Speech to the Private Secretaries to the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer, the Secretary of State for Trade and Industry, the Secretary of State for the Environment and the Secretary of State for Transport.

ROBERT ARMSTRONG

ROBERT ARMSTRONG

22 May 1984

CONFIDENTIAL

SP

DRAFTKEYNOTE SPEECH

Welcome to London and to this opening plenary session of our Economic Summit meeting. Not quite all the Ministers here today were also present at our meeting in Williamsburg last year. Of the Heads of Government I particularly welcome Signor Craxi as the only newcomer since Williamsburg. I hope that the experience we have already had of talking together will help us to reach good understanding during these two days.

2. The recovery of the world economy has made welcome progress since our meeting last year. It is broader, and the benefits can now be seen to have been spreading. We shall want at this meeting to focus on how to sustain the recovery over the coming years, and to give particular attention to problems which still loom ahead of us.

3. At successive recent Summits we have emphasised the need to discipline monetary growth and public expenditure, as the only foundation for a recovery without renewed inflation. The recovery can be sustainable only if we can achieve it on that basis. This is not an easy or a comfortable strategy for any of us. But we know that the freedom, strength and prosperity of our societies could not survive a continuation of the lax policies, the inflation, the indulgence of the previous decade.

4. At Versailles we were meeting at what can be seen in retrospect as the nadir of the recession. Last year we were

able to welcome the first signs of recovery. Today we can say with more confidence that the recovery is strengthening and its effects are spreading widely, and that the shape of the recovery, based on the strategies we have adopted, gives good grounds for hoping it will be sustained.

5. That must surely be the first message to go out from this Summit meeting: the strategy is the right one; it is working; and we intend to stick to it.

6. Among ourselves we need to acknowledge that there is still much to be done. All our countries, in different degrees, have made progress in reducing inflation. But we have not got it out of the system yet. There are many pressures which could spark it off again. We must all be conscious of worry - for our own economies and even more for the prospects of many debtor countries - over the rising level of interest rates, especially in the United States. We cannot credibly claim to have mastered inflation and set the basis for sustained recovery while the markets are holding interest rates so high.

7. A basic problem for all of us is the need to restrain public expenditures in the face of widespread pressures and against the easy expectations which have unfortunately built up in past years and which are still powerful. We face heavy commitments and the threat of rising demands for social security provisions in most of our countries. The real humanitarian needs must not be denied. But none of us can afford more than we can effectively earn. We need to establish and keep limits. And we need to curb expectations.

8. This is another - a sterner but very necessary - message we need to convey to all our peoples.

9. Perhaps the largest task which faces us in our own economies is that of adapting our societies to a new pace of change. I would like to suggest some particular areas on which we might focus our discussion.

10. It is a striking comparison between our countries that progress in reducing unemployment has been more rapid in the United States and Japan than elsewhere, even allowing for the relatively early recovery in those countries. Could this be linked with the fact that those are the two countries in which the claims of public expenditure pre-empt a much smaller proportion of total national output than in other countries? It seems also that, especially in European countries, there is less enthusiasm for change, and there is certainly a legacy of unhelpful habits, practices and government measures and laws - many of them designed to protect employment, but now constituting obstacles to the creation of new jobs.

11. I hope we could explore together some of the ways in which we can promote a more rapid acceptance of change - indeed a welcome for it. How can we stimulate a livelier industrial response to technological change and new market demands? How can we remove obstacles and give positive encouragement to the mobility of labour and flexibility in its use? Many of us have adopted measures to encourage innovative small businesses; should we not also discourage those measures which prop up declining industries? We cannot afford short-term horizons.

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12. This accent on change is another message I would like to send out strongly from the London Summit. It should be tempered by a clear indication of concern about the ways in which industrial societies deal with the national and international impact of industrial processes on the environment. As you will know from the material you already have, I have made a specific proposal for furtherwork on this by the Versailles Working Group on Technology, Growth and Employment.

13. A particular area of distortion is that of international trade. We must surely face changes here in at least two interests: giving market opportunities to developing countries to earn the means to pay their debts; and ultimately strengthening the dynamic basis of our own economics.

14. Many of the same conflicts are mirrored in all our countries: short-term preservation of employment against new and growing opportunities for the future; protection of this or that sectoral interest against the wider conditions and opportunities of the economy as a whole. The backward-looking pressures are understandably at their strongest when economic prospects are depressed. Now that the recovery is stronger, I hope we might add to its future strength by committing ourselves to rely less on export subsidies and other assistance which distorts trade, to shelter less behind protection of trade in goods and in services, and to remove distorting limitations on our capital markets. I hope we can encourage specific and practical moves in these directions.

15. Finally we must all be conscious of the world outside our own countries and economies. Many developing countries have been particularly severely affected by the recession, and lack the resilience of resources for spontaneous recovery. It is clear that the benefits of our own recovery are spreading to them in a rapidly strengthening

revival of world trade. But more needs to be done, and we must convey a message which shows that we recognise this and will play our part.

16. The developing countries are a very widely varied group, and their economic experience in very recent years has shown remarkable differences. Some of the poorest in Africa have suffered not only recession but a sequence of years of drought. Some, particularly in Asia, have survived the recession robustly and shown a capacity to generate their own growth without running into unmanageable debt.

17. We need to maintain adequate flows of resources to these countries, including official and multilateral aid. We should also use our influence to encourage and give help with practical measures in those countries to conserve resources, to enhance their own production of food and energy, and to create conditions in which populations are more stable.

18. The group of major debtors presents particular problems. I am sure that we must reaffirm the strategy for dealing with these problems which we have developed since the autumn of 1982. The central need is for these countries themselves to take as promptly as possible measures of adjustment which are in any case ultimately unavoidable. There are no easy or painless solutions. But we can chart some directions in which creditors can help, debtor countries can be enabled to ease their problems, and the problems themselves be shown to be manageable.

19. I suggest we should pool our ideas, and I offer you some examples:

- what can be achieved is seen, for example, in South Korea and Indonesia - two years ago on all our lists of potentially dangerous cases, but now no longer; and in Mexico - whose strenuous efforts in cooperation with the IMF and other creditors are beginning to restore confidence;
- where debtors are beginning to restore confidence, creditors may well be willing to contemplate longer-term restructuring of debt, rather than hand-to-mouth rescheduling;
- the burden of rising interest rates is a severe threat: I welcome the indications that commercial creditors are considering possible ways of limiting the immediate damaging impact;
- many debtor countries possess substantial assets of natural and industrial resources; many potential foreign investors would be interested in a participating equity stake in those resources; the desire to retain domestic control is understandable, but the financial benefits of allowing such investment could greatly ease the burdens of debt - and it is worth noting that the countries which have welcomed such investment have tended to be among those developing most rapidly;

- for the longer-term, we should surely seek all ways of encouraging direct equity investment: it is healthier than short-term bank finance, it may well be more readily available than such finance in the future, and it brings undoubted advantages of management and technological expertise and world-wide trading connections;

- again for the longer-term, should we not look to the World Bank Group of institutions to play a larger role, to gear their lending to performance and to act as a catalyst to attract private capital.

There is no escape from handling individual problems separately - every country is different. But we must show our joint concern and show that we have a framework for action over the years ahead which gives hope to the debtor countries of overcoming their problems and restoring confidence for the future.

20. [Conclude with a suggested order of discussion].

Ref. A084/1528

MR COLES

22/5/84

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ACTION	Mr. LITTLER
COPIES TO	CST EST
	Sir P. Middleton
	Sir T. Dunne, Mr. Hawin
	Mr. Lavelle, Mr. Mountfield

As you know, on 31 May an international trade delegation is to meet the Prime Minister, in her capacity as Chairman of the London Economic Summit, to present a submission on the views of the international trade union movement on the issues facing the world economy. Mr Bottrill
Mr C. Kelly

2. This is a standard feature of pre-Summit activity; and such delegations have been received by the Chairman of the year before each recent Summit.

--- 3. I attach a copy of the statement to which they will be speaking. There is a good deal in it, particularly as to assumptions and recommendations for action, with which the Prime Minister and most of her colleagues at the London Economic Summit will disagree. But there is a rather special domestic significance about this meeting, which means that both the Treasury and the TUC are extremely anxious that the meeting should be, and be seen to be, a friendly affair and a success.

4. The delegation will be led by Mr Basnett; and both the Treasury and the TUC believe that, if the meeting can be seen to be constructive and friendly, that will strengthen the hands of those in the TUC who want to bring the TUC back into the National Economic Development Council (NEDC) in September. The Chancellor of the Exchequer takes the view that it is in the Government's interest that those views should prevail, and that the TUC should return to the fold.

5. Clearly what is said in the statement issued to the press after this meeting will be important in this connection. The Assistant Secretary General of the TUC has told me that in his presentation Mr Basnett will stress that the objectives of the trade union movement are to create jobs, and to achieve technological and structural change "in a way which enhances rather than degrades the lives of our people". Though there are differences about other objectives, and about the way of achieving these particular objectives, it should be possible to register agreement on these objectives.

ARMSTRONG
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6. With this in mind, I have prepared a draft of the sort of press release that might be issued. The TUC have stressed to me that they will wish the press release to contain some account of their views as presented; and Mr Ingham has in mind that he would like to have some on-the-record remarks by the Prime Minister which he could relay in his briefing. I attach a copy of a draft press release herewith.

7. I am sending copies of this minute and the attachments to the Foreign and Commonwealth Secretary and the Chancellor of the Exchequer, and to Mr Ingham.

ROBERT ARMSTRONG

ROBERT ARMSTRONG

22 May 1984

DRAFT PRESS RELEASE

On 31 May 1984 the Prime Minister, the Rt Hon Mrs Margaret Thatcher FRS MP, received an international delegation of members of the Trade Unions Advisory Committee (TUAC). The delegation, which was led by Mr David Basnett, presented a submission by the TUAC to the London Economic Summit on the main issues facing the international economy. Other members of the delegation were:

2. The Prime Minister, opening the discussion, welcomed the delegation to 10 Downing Street. As Chairman of the London Economic Summit she valued the opportunity of hearing the views of the international trade union movement on the issues facing the world economy, and particularly the industrialised countries. The Summit came at ~~a crucial juncture:~~ ^{time when} the economic recovery foreseen at Williamsburg could ~~not~~ ^{now} be seen to be under way. What was important now was to establish it as a basis for sustainable growth and to spread its benefits widely not only in the industrialised countries but in the rest of the free world. That would be the best possible basis for creating new and lasting jobs and reducing the levels of unemployment about which she and other Heads of State or Government were no less concerned

*Spoke
Richard Hatfield
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than the trade unions. But the achievement of sustainable growth would entail unremitting efforts to bring inflation down still further and to reduce the levels of interest rates, which were too high.

3. Mr Basnett, introducing the TUAC submission, said that it was based on the main objectives of creating jobs, and achieving technological and structural change in a way which enhances rather than degrades people's lives. The trade unions remained deeply concerned about the high levels of unemployment. They agreed that recovery and growth were essential conditions for reducing unemployment; they were not convinced that they were sufficient conditions, or that market forces alone would bring about the fall in unemployment which all desired to see. They emphasised the need for an internationally co-ordinated approach, with particular reference to investment in infrastructure, and the need to avoid cuts in wages or undermining of workers' rights in the name of labour market flexibility. They also stressed the need for co-operation with and support for the developing countries, so that those countries too could enjoy the benefits of economic recovery and growth.

4. Mr Basnett emphasised that the trade unions were the supporters, not the opponents, of change. They recognised that growth, employment and living standards depended on technological and structural change; they stressed that change could be successful only if it was based on understanding and at least some degree of consensus.

5. After other members of the delegation had spoken, the Prime Minister, summing up the discussion, once again thanked the delegation for coming and for the clear expression of their views. The delegation would not be surprised if she said that she would herself part company with them on some aspects of their diagnosis and prescription; but on the main objectives, as defined by Mr Basnett, there was a large measure of agreement. It was necessary to secure and establish the recovery, and to achieve sustainable growth. This was a necessary condition of bringing down levels of unemployment. The Prime Minister very much endorsed what had been said about the importance of technological and structural change in the creation of new jobs, and about the need to increase public understanding and acceptance of technological change: this had been a theme which she herself had stressed at the Versailles and Williamsburg Summits, and would stress again in London.

6. She also endorsed what had been said about the need to spread the benefits of growth to the developing countries. They stood to gain just as much as industrialised countries from economic recovery, since a growth in world trade associated with economic recovery would enable them to increase their exports to the industrialised countries, (in the case of the debtor countries) would help them to meet the cost of servicing the debts which they had incurred. In this connection it was much to be hoped that the benefits of increasing exports would not be eroded by increasing debt service costs as a result of rises in interest rates: another reason why it should be an object of policy in the industrialised countries to create the conditions in which interest rates would fall rather than rise.

7. The Prime Minister concluded the meeting by repeating her thanks to the delegation for their visit, and her assurance that she would convey their views to her colleagues at the London Economic Summit.

TUAC

Statement to the OECD's Ministerial Council and the London Summit

Adopted by the 72nd Plenary Session of TUAC, 26 - 27 April, 1984

INTRODUCTION AND SUMMARY

1. Despite some recent encouraging signs of an upturn, unemployment remains very high throughout the OECD area and continues to grow in many countries. Economic growth - let alone a recovery - is by no means guaranteed, and on present policies, the forecast is for growth slowing down and not spreading. The prospects of structural change have come to mean additional insecurity of present and future employment and income for an ever growing number of people. Such growth as has taken place has not been equitably distributed. Differences between groups in our societies, and between countries, have been growing and this has increased tensions both within and between countries, developed and developing alike.
2. Problems caused by unbalanced growth, continued high unemployment and uncertainties due to structural change are seriously aggravated by the international monetary chaos, world debt problems, and austerity programmes which are imposed on a growing number of countries. Joint deflationary policies have strongly contributed to the recession in the OECD area. When the same kind of policies are prescribed for developing countries, the effect is nothing short of devastating. The oil price shocks and the recession have hit harder most of the developing countries than the OECD area. The least developed countries are in an especially dramatic situation, and many of them need emergency food and other aid simply to assure the survival of their populations.
3. The poverty and the need for real economic and social development of hundreds of millions of people in the developing countries can - and must - be attacked by policies which also provide for accelerated economic and employment growth in the industrialised countries. The world economy has become so interdependent that there will be no durable solution to economic and employment problems in the OECD area unless the issues of underdevelopment and poverty in the whole world are tackled.

INTRO-
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SUMMARY

Policies for economic and employment growth and for world development, have to be coordinated as much as possible, in order to maximise their positive effects. The more there is delay and hesitation, the greater is the risk that even the best individual countries' policies yield only little or partial results. Growth which amounts to a recovery has to be the outcome of policies negotiated and implemented jointly by all countries.

4. The world economy will not be pulled out of the recession by simple exhortations or by a "trickling down" of growth from North America. Recovery will not be achieved by passive government policies and interventions which are based on the belief that market forces have to be "liberated" from regulations and institutions which have evolved throughout modern history - and which have contributed to social progress and economic efficiency as well. The governments have the responsibility to provide a framework for economic and employment growth, and the most realistic way to achieve this is through cooperation which involves the trade unions and the business community. The first step should be for the governments to clearly demonstrate their political will to seek solutions together, and use and develop national and international economic policy tools for a robust recovery.
5. Real adaptation and desirable change in the OECD countries will not be promoted through intensified competition, deregulation and privatisation, accompanied by a weakening of social safeguards, or if wage levels are depressed and problems of low pay and poverty continue to spread. It is imperative to avoid a development towards a dual society, with an escalating polarisation between the better off and those who lose out from structural change. Sustainable growth can not be fostered through measures which in reality make it a divisive factor in our societies. The cost of change must not be borne by those who lose from it. Governments have the duty to devise their policies so that the benefits of economic growth and structural change will be shared by all.
6. To cope with structural change, opportunities are needed on a large scale. There is no room for adaptation without a better growth path. Opportunities are not

provided by an incentives-based policy which increase inequalities between groups and individuals. Real adaptation will not be sustainable unless there is active consent and willing participation of all groups in society. The automatic solutions offered up to now to the OECD countries and the world economy have not worked. Falling inflation did not by itself lead into a recovery and more jobs. Cuts in social expenditure have further weakened the social fabric and have not generated private investment. It is equally misleading to assume that now recovery can be conjured by increasing wage and labour market flexibility; this will only create further obstacles to a healthy recovery which would be fair for all.

7. A number of elements are indispensable in order to ensure that there will be economic and employment growth in the OECD area and the whole world economy, in a way which does not lead into an upsurge of inflation. The OECD's Ministerial Council and the London Summit should discuss, and agree upon, a growth strategy based on the following items :

- (i) Jointly negotiated and coordinated monetary and fiscal policies, to back up the stuttering growth which has taken place and to ensure it is spread throughout the OECD area and the world economy. Given the international economic linkages, the coordination of measures individual governments take to stimulate growth will serve to maximise the joint positive impact of these measures on economic growth and employment creation.
- (ii) An underpinning of an OECD-wide recovery programme by fair and workable policies in each of the countries, which aim at increasing productive and job-generating investment. Such policies must be devised and implemented by governments in consultation and through negotiations with trade unions and the business community.
- (iii) A significant increase of both public and private infrastructure investments. There is broad agreement between trade unions and employers on the need for such investments. When they are carried out in an internationally coordinated way, the effect on employment and investment will be optimised without detrimental results on government expenditure and trade balances.

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- (iv) government policies to facilitate structural change by creating opportunities and promoting a situation in which collective bargaining between trade unions and employers can have an important constructive role, so that change can take place with a reasonable degree of security of employment and income.
- (v) A shortening of working time, through negotiations between trade unions and employers which also aim at making full use of the employment creation potential of this measure. Governments should facilitate and certainly not hinder the climate in which such negotiations are conducted.
- (vi) Balanced growth in world trade, which is possible only hand in hand with economic and employment growth in all countries and the expansion of domestic markets. Policies which restrict domestic demand distort trade flows and increase trade conflicts, and make any "roll back" of protectionism more difficult.
- (vii) Measures to counteract the international monetary chaos, to increase stability of the exchange rate markets, to reduce real interest rates world wide, and to solve the world debt problem in ways which do not undermine but support the democratic process and strengthen the economic and social potential of indebted nations.
- (viii) A review of the conditionality framework of the International Monetary Fund, so that the conditions for countries in difficulty do not mean a halt to growth and development but are constructive and promote the necessary structural adjustments.
- (ix) An increase in resources for development, in particular Official Development Assistance, and the adoption of policy measures targeting these resources to attack blatant inequalities and to help to create and strengthen viable economy and society in each recipient country.

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8. The decade of recession and mounting uncertainty must be overcome. Change is inevitable, due to technological progress, shifts in world trade patterns, and the growing interdependence between different parts of the world. But this change has to be managed. Mechanisms for building a workable understanding on the management of change have to be developed and used. This requires an atmosphere of mutual respect and confidence within the societies

I - THE FRAMEWORK FOR ECONOMIC AND EMPLOYMENT GROWTH

1. Growth and unemployment

9. Confidence in the effectiveness and the fairness of the OECD government's policies is seriously eroded by continued high and rising unemployment. Already now one fifth of the young cannot find an entrance into working life. Lower inflation, from 12.8% in 1980 to 5.8% today, did not automatically bring about the increase in economic activity and job-generating investment which it was supposed to. Unemployment in some of the low-inflation countries is among the highest in the OECD area. In the United States, where unemployment has fallen from 10.3% in 1982 to 7.8% now, the upturn did not start in 1982/83 by itself but was brought about by increasing domestic demand and consumption through a relaxation of monetary and fiscal policies. It should by now be clear that the recent North American growth will not be automatically carried over to other OECD countries and the rest of the world by the market mechanism without governments taking measures to spread and sustain it. Instead, there are rapidly growing worries over the sustainability of growth in the United States and the ability of the still high unemployment there to fall any further.
10. Economic growth so far is only a rebound from the deep recession and it is weaker than in previous upswings. Industrial production has only now reached the 1979 level. The prospects, based on present policies, are for a continuation of growth at levels between 2-3% which are too low to even start reducing unemployment. The OECD Conference on Employment Growth in the Context of Structural Change, in February, 1984, did conclude that the principal battle against unemployment must be fought at the macro-economic level. It requested that the subsequent Conference of Finance Ministers would assign a high priority to employment creation, in "ensuring virile but sustainable economic growth". Judging by all accounts, this appeal was not heard by the Finance Ministers, who did not adequately recognize that there must be sufficient domestic demand growth in all OECD countries in order to achieve a better functioning of the economy and tackle structural problems.
11. A basic constraint faced by governments, by the industry, and trade unions, is the instability and volatility of the present economic situation. The insecurity of the international economic environment cannot justify the OECD government's being

that a search for solutions to our common problems will be serious and constructive. The key issue for the OECD's Ministerial Council and the London Summit is to create the framework in which people can meet change with reasonable security, and in which the policies pursued both in the OECD area and the developing countries are fair for all.

frightened into inaction or confining joint decisions to negative, deflationary measures alone. Those who no longer believe in the possibility of internationally agreed policies for recovery are fatally attracted by beggar-thy-neighbour policies. In an extremely unstable environment, even the best of national policies, based on broadest possible agreement, will face severe difficulties and may well not succeed. It is distressing that the recession has increased economic nationalism. The economic linkages between OECD countries are often seen only as constraints on national policies; in fact they offer an opportunity for joint action to overcome the recession.

12. A more secure framework will be created if all governments negotiate and adopt coordinated growth and employment policies consisting of diversified measures adapted to the specific problems in each country, and taking advantage of whatever multiplier effects can be obtained by coordination. Expansionary measures, when coordinated and targeted, will build inflation out of the system in a more lasting way than trying to squeeze it out with depressed expectations. The hitherto prevailing hesitant attitude towards spreading economic growth has to be overcome. Growth, albeit still very unbalanced, could not be sustained if monetary and fiscal policies were to be further tightened. Yet this danger is clearly implied wherever the efforts to contain and cut budget deficits concentrate mainly upon cuts in public expenditure. Nor is there evidence that a reduction of public expenditure would induce the market forces to make use of the room for growth they may thus be offered; they, too, need a clear public policy, a policy which among other things involves public expenditure.
13. The hoped-for automatic ways of achieving employment-generating growth have not worked. Unemployment has not been reduced by simply bringing inflation down, and now the benefits of lower inflation are being eroded by continued recessionary policies. The incentives to growth which have resulted from falling inflation, from a change in the proportion of income consumed or saved, from restocking and from exports to North America cannot be repeated. Investments are still unlikely to lead a

strong recovery because of high real interest rates, uncertain demand prospects and capacity which remains unutilised. Those investments which are taking place are not primarily of a job creating type.

14. More recently, there has been a growing emphasis on reducing unemployment through lower wages, greater wage differentials, cuts in social benefits, and various devices to weaken the bargaining power of trade unions. All this may have marginal effects on the profitability of enterprises, but it will have no effect on their job creation performance. The fortunes of enterprises depend on several other and usually more important elements, such as lower interest rates, reasonably balanced and regular international trade, a more stable monetary system, management expertise, technological innovation, taxation and sufficient levels of domestic demand. The magnitude of the unemployment problem in the OECD countries is such that without vigorous job-creating investments, no amount of tampering with wages/profits shares will provide a solution.

15. Governments have to work out a proper industrial and trade policy framework for economic and employment growth. New jobs will have to be created in activities which offer a sufficiently secure perspective for the future. They must be viable jobs in the sense that they contribute to an improvement of working and living conditions throughout the economy. The context in which they are created has to be one of confidence. The workers must have the confidence which can only be brought about by security of future employment and income. Employers also need a confidence in future prospects, if they are to proceed with the kind of investments which will make their labour force grow and not diminish. Investments have to be promoted by policies whose basic criterion is their employment effect. The way to achieve the necessary confidence is through discussions and negotiations involving all the parties concerned.

2. Infrastructure investments

16. Investment in physical infrastructure is a logical avenue for increasing economic activity and employ-

ment. It is needed to rehabilitate and upgrade existing facilities which have been neglected over a long period of time, and to construct new ones in areas where economic expansion and the development of new industries is to take place. The weakness of infrastructure must not become a constraint on recovery. Measures have to be taken now, as substantial investment programmes demand time for implementation, and in particular as on present policies, growth is foreseen to slacken towards the middle of 1985. In addition to the direct investment and employment advantages, such investment has a substantial multiplier effect due to backward and forward linkages throughout the economy. This helps to spread any growth that may be achieved in leading sectors of the economy towards a more broadly-based recovery.

17. This type of investment can be achieved through a combination of public and private expenditure and initiative, but the governments have a pivotal role to play. At a time when the problem for our economies is how to generate productive investments to sustain recovery and create new jobs, there needs to be a framework of policies to bring together all available resources. Public investment in the infrastructure also induces large amounts of private investment. Indeed, no sharp distinction can be drawn between "public" and "private" investment: activities such as construction for new housing, or urban renewal, or the strengthening of transport facilities, typically involve both public and private resources.

18. The financing of these investments does not have to be the problem it is often presented to be. Firstly the increase in employment, both direct and indirect, reduces the expenditures on subsidising unemployment. Secondly, the increased economic activity which such investments stimulate increases government revenues. Thirdly, innovative funding schemes which inject private capital at various stages without impairing public accountability can ensure that there is an adequate rate of return. All of these benefits will be magnified if the expenditure on infrastructure of each country are made as part of a coordinated programme which makes positive use of the interdependence of the OECD

economies. Studies by the OECD on international economic linkages show that the government budget consequences of such investments will be positive within a few years.

19. Trade unions in a number of OECD countries have made, and participated in, studies which look into the type of infrastructure investments and forms of financing which would strengthen the economy and create jobs. For example, a joint study by a high-level group of trade unionists and industry leaders in the United States has recently proposed investments in highways, bridges, urban water supply systems, and wastewater treatment facilities, involving both increased user fees and greater access to capital markets. A study by the Nordic and German trade unions has indicated how a common investment initiative by all OECD countries would have a beneficial international multiplier effect, induce private investment, and reduce unemployment. Proposals from business and industry circles for solving the present crisis also include increased investment in infrastructure such as transport and communications, with the participation of private capital.

20. Infrastructure investments are more than a starter for recovery by stimulating private investment. They also have an important role in improving the efficiency of our economies and their capability to carry out structural change. A well functioning and modern infrastructure enhances the productivity of the economies. Thus, infrastructure investments can and should be targeted to the most pressing constraints. Some areas where investments can be undertaken by governments, and where public policies to stimulate investments can be promoted, are :

- Communications and transport facilities, such as railways, roads, bridges and ports, and the information technology network which is necessary for their functioning ; due to its nature, much of this investment requires intergovernmental cooperation ;
- The renewal of both urban and rural housing and other facilities where they have fallen into decay ; in many of the urban conglomerates in the OECD countries this has to amount to an extensive rehabilitation of inner cities and/or urban areas ;

- New housing and the construction of educational, health, child and old-age facilities ;
- Waste disposal and treatment, including the possibilities for recycling and the use of waste for energy generation ;
- Investments in a more efficient use of energy and energy conservation (in households, by the community, and by industry) ; and
- Protection of the environment, for instance through sufficiently large-scale investments in equipment and facilities which reduce the threat to the environment.

21. The aim of public policy should also be improved social infrastructural services in a number of vital areas. These include the provision of health care, which is made all the more important by demographic developments. Child care facilities have to be expanded, in particular where a lack of them creates an unwarranted obstacle to the full participation of both parents in economic life. Much investment is needed in education, starting with basic education and continuing with vocational education and training, including adult and recurrent education, to cope with technological developments and structural change. Any comprehensive plan for restoring economic growth must have as an integral part an effective and well financed system of public education. These activities are far from being passive from the viewpoint of a national economy. They improve the ability of the economy to create employment and contribute to its productive potential. These are activities which by nature should be in the public field, and where the private sector is involved in them, it has to accept the necessary discipline (equal access to social services) and to maintain high standards of employment.

3. Negotiating structural change

22. The fear of change can be removed only through bona-fide discussions and negotiations with, and within, the existing institutions to ensure that the needed safeguards are in place and that all opportunities are made use of. High and rising unemployment,

insecurity over conditions of work and incomes, and the lack of meaningful vocational education and training and retraining facilities are heavy constraints to necessary adaptation ; these constraints cannot be removed without coherent and effective government policies. Negotiations on how to manage structural change have to be carried out at different levels. They call for decisions by governments on industrial, technological, investment, regional and labour market policy. Discussions between governments, trade unions and employers are essential for ensuring that the cost of change will be borne equitably and not only by those who are worst hit by it.

23. Confidence is not increased if the governments' message is that there will be more closures and dislocation of work and less social provision. Redistributive taxation, public programmes and the social wage system are partial compensations within an economy, from the groups which gain from technology and trade-induced change to those who lose out from it ; as such, they should be developed further. The provision of vocational education, training and retraining is an indispensable element ; there is much scope for cooperation between governments, trade unions and the employers in this field. Information to, and consultation with, the workers by enterprises, and particularly multinational enterprises, on future prospects and planned changes allows for a whole series of workable procedures to cope with, or offset, negative effects of restructuring decisions. In the final analysis, the effectiveness of the measures taken either by governments or enterprises to manage the effects of technology and trade depends on vigorous employment growth and the creation of new opportunities. Without this, income support or training arrangements for an unemployed worker do not amount to much more than first aid.

24. Insecurity can be substantially reduced through negotiations between trade unions and management over changes at the workplace. This will help in moving towards "industries of the future" in a manner which is socially desirable. Technology agreements (either directly between trade unions and employers or tripartite framework agreements) are designed to ensure that the process of change at the workplace is achieved in a way which is

recognized to be fair and equitable. This is particularly necessary when changes are fundamental due to a new generation of production and communications technology.

25. The increasing complexity of company structures and management systems diminishes the transparency of ownership and control of enterprises, while decentralisation assisted by new technology leads into geographical dispersion of activities and breaks up existing employment structures. It is increasingly difficult for the employees of a given entity to be aware of the way in which the company as a whole is faring. Industrial relations systems and practices must be such as to ensure that in these circumstances, too, meaningful negotiations on wages and working conditions will cover all workplaces, irrespective of their size and location. There has to be (by agreement, or by legislation if need be) information to, and consultation with, the employees on planned changes in the activities of the enterprises. This is important because restructuring on a world-wide scale can lead into substantial change for reasons which are directly attributable to the performance of a specific enterprise or the economic position of the host country.

26. Real adaptation to economic change has to take place through negotiations and agreement. It cannot be achieved by a policy based on incentives which increase inequalities between groups and individuals and which do not guarantee a place in society for all. Cuts in social expenditure, shifts towards indirect taxation, and the widening of income differentials weaken the social fabric and make it more difficult for society to adapt to economic change. The recession has undermined the workers' confidence in future access to secure incomes and thus generated fear of change. The governments have up to now offered solutions which have failed one after the other. Disinflation did not produce jobs. Cutting public expenditure has not brought forth private investment. The latest vogue panacea, "wage flexibility", could turn out to be counterproductive to real adaptation.

4. Wage and labour market flexibility

27. Flexibility of wages, and of the labour market more generally, cannot be unilaterally imposed by the governments' policies. The concept of flexibility has to be properly defined before it

can be used as a key element in the OECD's economic strategy. It must not be forgotten that wage levels and differentials have a social basis, and changes in them can only be brought in the collective bargaining process. This process does allow for real adaptation without the negative effects that fragmentation of the labour market produces. This is why it is dangerous to make political assumptions for instance on the basis of a superficial reading of trends in growth and employment creation in different parts of the OECD area.

28. Mass unemployment is by far the biggest obstacle to flexibility, especially regarding occupational mobility and the achievement of structural change. The most efficient way to achieve change is to make sure that opportunities are created and that the necessary adaptations take place through negotiations and a strengthening of confidence between all parties, and without demolishing labour legislation and social protection. In so different economies as the United States, Belgium and Japan, neither declining real wages nor higher profits have engendered employment-creating investment. Increased demand has been crucial to recent growth where it has taken place. Attempts to reduce demand by depressing over-all income levels will not solve the problem of 35 million unemployed in the OECD area; they will make it worse. Every single OECD country already has a low-wage problem, a problem of segmentation of the labour force where women are frequently locked into low-paid and involuntary part-time jobs, and most of them have a new problem of poverty.
29. A downward pressure on wages in all countries, for reasons of competition, will only serve to add to these problems, instead of promoting investment in better equipment. A high-productivity and high-employment society with decent wages will not be achieved by flexibility which entails low-paid and insecure jobs in informal sectors with insufficient social safeguards. Artificially low wages increase pressures on social security and welfare benefits which have to be provided by society. They can also become an unwarranted subsidy to ailing firms, thus prolonging their life well beyond a time when efficient measures for restructuring could and should have been taken. Finally, the remedies proposed for unemployment should in no circumstances promote a situation where groups and individuals compete with each other to have a place in the labour market.

30.Reducing social protection, in the name of flexibility, only increases the incentive to seek protection against change and not through change. Making redundancies easier without providing for new opportunities will shift costs from the private sector to the whole of society. As economies are confronted by large-scale change, the notion of flexibility must not amount to revising the foundations on which economic growth and social progress in the period following World War II have been built. Social expenditure and the existence of a social wage are by no means charity : they must continue to be a central means of achieving adaptation, transferring compensation from those who gain from change to those who lose from it. If this comprehensive system which is based on universality of access is undermined, the scope for social cohesion could irremediably be damaged. Workers will be prevented from accepting, and involving themselves in, change and adjustment if their standards of living and work are being attacked. Productivity improvements will not be seen as desirable, if they increase unemployment and inequality in the societies.

31.Free collective bargaining is by nature a flexible system which had developed, and also undergone change, in the light of changing economic and social conditions. Governments should once and for all discard the notion that certain forms of wage bargaining are inherently inflationary or hamper job creation. Differences in the ways in which wage levels are set among OECD countries do not correspond to differences in economic performance or the inflation rates. Instead of prescribing interference with collective bargaining structures and practices, governments should join in exploring the possibilities free collective bargaining offers for looking for real ways to bring about and sustain a recovery.

5. Working time

32.A variety of negotiations between trade unions and employers on the shortening of working time are going on in different countries. Growth alone - even with considerably higher rates than now forecast - will not provide work for all those who need it. Consequently, it is imperative to maximise whatever employment potential there is in a negotia-

ted shortening of working time (a 35-hours week, a shorter working year, paid educational leave, reduced life-long working time etc.). Even though the main way of implementing a shortening of working time is through negotiations between trade unions and the employers, governments can and should, both individually and collectively, promote the environment in which this take place and they should certainly not hamper this process. Legislation and administrative measures may be needed and governments are also directly involved through education, training, pension provision and other social security measures; and they are employers themselves.

33. Reduced working time should not be conceived as only "sharing unemployment". It must be recognised to be a benefit for the employees and a benefit for society as well. It should not be seen as simply a cost to the employer or the society. This "cost" is a social benefit, directly insofar as it increases per hour productivity and employment, and indirectly as it greatly improves the quality of life for people who no longer have to work long hours to earn a decent wage.
34. The reduction of working time must not be separated from the issue of overtime, or else there may be little or no effect on actual working time or employment. A worker should be able to make a living without overtime pay being a necessary supplement to an inadequate basic wage. Special corrective measures will be necessary in those industries and enterprises where strong reliance on overtime pay has become part of the wage pattern. The recession has aggravated the practice of combining compulsory overtime with short-time working. Flexible working time arrangements and overtime should not be methods for employers to keep employment levels down. All working time arrangements should be voluntary and negotiated, and not at the employers' discretion. They should not become a daily feature of working life which increases uncertainty of income.
35. Governments should recognise and deal with the distorting effects of maintaining or increasing differences in labour standards between countries which have achieved a comparable level of economic development and strength. Competitive advantages should

not be forced by a refusal to translate productivity gains into improved working and living conditions. Sustained and targeted measures should be taken to reduce and harmonise working hours, which can differ by as much as 20% between countries of similar economic development and strength, as well as to improve the standards of social security, health and safety, and the working environment between these countries. The governments have increasingly discussed the shortening of working time in the OECD. It is a forum which governments can use for international cooperation on these issues, drawing as appropriate on the specialised knowledge and facilities of the ILO and the GATT.

II - TRADE, MONETARY POLICIES AND DEVELOPMENT

1. Trade policies

36. Trade is not an engine of growth because all countries are pursuing policies which aim at increasing exports and restricting imports. No healthy industrial policy can be built upon this basis either. Successful development of export industries needs an increase in domestic activity and demand, and employment growth. Instead the search for competitive advantage has deteriorated into cut-throat competition between countries for one another's markets. Such competition can occur not only when markets are shrinking but also when they are growing at different, unbalanced rates. In looking for ways to further liberalise international trade, and "roll back" protectionism, governments should realise that policies which restrict domestic demand are themselves protectionist because they distort trade flows and increase trade conflicts.
37. For years now, the benefits of trade have been argued in terms of exports only. The assumption on the beneficial effects of imports have always presupposed the existence of full employment, a situation which does not exist today. Under present conditions, in the absence of balanced economic growth among the trading partners, trade tends to threaten entire sectors of national economies and the jobs in them, as import penetration surges destroy otherwise competitive enterprises. Since the collapse of the Bretton Woods system, trade flows have been excessively affected by erratic exchange rate movements rather than by real comparative advantage, and through the ebb and flow of capital transactions based on interest rate differentials, expectations, uncertainties and sheer speculation. Competitive trade itself is diminishing because countertrade is expanding, and because a significant and growing share of trade takes place within and through multinational enterprises. The volume and direction of intra-firm trade changes without warning, as multinational enterprises carry out their restructuring world-wide.
38. Each country needs a sufficiently diversified and solid economic structure. These structures have already been badly shaken by upheavals which the economy has been undergoing over the past decade. With extraordinarily rapid change it is in danger.

of disintegrating further without the actors involved, and the decision makers, even fully realising the gravity of the process, let alone devising consistent policies to counteract it. Over-adjustment, or panic adjustment, to temporary pressures should be avoided. Moreover, the survival of a viable economic structure requires the maintenance and modernisation of essential industries and services which may not appear to be internationally competitive. There are also social pressures to maintain industries which no longer are internationally competitive and which should be assisted in returning to competitiveness or in restructuring into other product lines. These pressures can be overcome only if there is an economic and industrial policy creating new opportunities for enterprises and workers, and if there are social and employment policies which are designed to cope with trade adjustment needs.

39. Persistent instability of the trading system requires anticipatory and built-in adjustment provisions. Their scope must be broad enough to underpin any liberalisation agreements which would further expose the service sector, where most new jobs have been created, to international competition. There has to be confidence in the governments' will and capacity to manage the effects of trade, both nationally and through international cooperation. The workers' ability to adapt to change also depends on the effectiveness and coverage of social guarantees in different OECD countries, as well as on the timing, speed and methods of industrial restructuring. In particular the various forms of subsidies, which are necessary to cushion the effects of change or to promote change, must be clearly identified and subject to international agreement. Such international agreement is needed on the temporary use of these and other measures, such as voluntary export restraints. If and when trade interventions and subsidies to ailing industries are discontinued, governments must take anticipatory measures so that change is manageable and constructive rather than simply disruptive.
40. The Havana Charter of 1948, which made the link between trade and employment, recognised that low labour standards in one country can erode labour standards in its trading partners. Operative conclusions were not drawn because the projected International Trade Organisation was not established. Trade tensions and unfair trade arise out of

situations where the working population is deprived of trade union rights and, more generally, prevented from receiving its share of the benefits accruing from exports. Social clauses, such as fair labour standards clauses included in some existing commodity arrangements, should be negotiated in trade agreements, and implemented. This will remove the distortions caused by violations of internationally agreed minimum labour standards and will in no way jeopardise the economic progress of countries concerned. On the contrary, it will foster more balanced economic and social development, and it will also ensure that in countries which have achieved higher labour standards, trade adjustment is not forced by exploitation of workers elsewhere.

41. Differences in labour standards among increasingly interdependent countries at a comparable level of economic development and strength distort trade. Large differences in working time, wages, pensions, eligibility and levels of unemployment and other benefits (with consequences for non-wage labour costs) and in the level of social provision exist among the main trading groups within the OECD area. This jeopardises the open trading system in two different but complementary ways; the maintenance of such differences is a powerful, though concealed, protectionist device; at the same time, it is a hidden export subsidy because it makes workers assume a disproportionate cost of making exports competitive. The failure to translate past productivity gains into improved labour standards, enhanced social progress and higher living standards boosts unfairly the competitive position of countries. For the sake of stability in the international trading system, growth must rely upon the expansion of both export and domestic demand. A harmonisation which leads into an overall improvement of labour standards among these countries would facilitate the expansion of trade in both directions.

2. International monetary issues

42. The existing international monetary chaos constitutes one of the major obstacles to general, sustained and non-inflationary recovery and orderly structural change. The links between the value of currency and the state of the country's economy

have been largely severed, wild fluctuations have become the general rule of exchange rate behaviour, the influence of interest rates on the direction and scope of international flows of capital has become excessive, and international indebtedness has reached very dangerous proportions. The debt crisis of the past two years is far from being over, especially if monetary policies remain tight, and in the foreseeable future, even some of the major industrial countries may experience difficulties in meeting their international debt service obligations. Due to the declining inflows of money in the developing countries and to their increasing debt service, the net transfer of resources has been reversed : the developing countries are now exporting more capital to the industrial countries than they are receiving from them.

43. This chaos cannot easily be overcome : it has proved difficult even to reach agreement on the minimum objectives of necessary reform. There should at least be general recognition that it is necessary to ensure a greater stability of exchange rates; to keep the interest rates under control; to limit the amount and impact of the so-called hot money, which makes foreign currency speculation more profitable than productive investment; to counteract major overvaluations or undervaluations of single currencies which seriously affect the pattern of international trade; and to prevent speculative devaluations and other methods of exchange rate warfare from being used as strategic weapons of trade warfare. There is a tremendous need for greater stability in the exchange rate markets, and initiatives to broaden monetary stability should be pursued.

44. To cope with the disruptive effects of excessive debts, governments must both individually and collectively go well beyond mere crisis management. Governments and central banks must fully resume their responsibility for surveillance and control of international lending and cooperate among themselves, and with the International Monetary Fund, to ensure the surveillance of the exchange rates and of the conditions in the exchange rate markets. The banks, after having been rescued by the emergency measures adopted by the governments and the IMF to keep the global financial system afloat, must be brought to go beyond the rescheduling process which increases the interest payments of the

countries in difficulty and merely increases the burden of repayment in the future. Rather than getting increased profits out of the publicly financed rescue measures, banks must accept reasonable losses in the years to come, and thus recycle to the debtor countries part of the profits drawn from irresponsible lending.

45. The conditions attached to IMF assistance should be based in each specific case on a comprehensive analysis of the economy and social realities of the country in difficulty, to define the constructive policy changes which could help to develop viable economic and social structures. The tendency of the IMF to prescribe drastic remedies for balance of payments and budgetary deficits can jeopardise social development and the democratic process, and it must not be allowed to prevail. The developing countries continued access to international liquidities is clearly inadequate, pushing them to function at levels far below their optimum and to resort to the most expensive forms of private lending. OECD governments cannot afford to deny the International Development Association the resources it needs, in view of the vital role of the World Bank and the IDA in furthering the development process and in shielding the developing countries from the instability and devastating effects of private lending.
46. A major endeavour to restore the function of the international financial institutions can be initiated without waiting until agreement about a comprehensive and more orderly monetary system is reached. Governments and central banks should give greater consideration to the likely or actual effects their domestic monetary policies have on exchange rates. They should cooperate to bring about a coordinated reduction of real interest rates. Governments should also agree to discuss with the IMF, and within it, as well as with and within the OECD, the aspects of their individual economic policy choices (whether international or domestic) which have or can have an adverse impact on other countries. The dividing line between domestic and international economic issues is blurred. For instance, insufficient domestic demand in surplus countries is not a purely internal affair inasmuch as it produces strains on other economies. Actual knowledge and understanding of the interrelationships between balance of payments deficits, budgetary

policies, interest rates and exchange rates remains inadequate. Therefore, IMF action and the joint action of the member governments has to be based on discussions and agreement rather than on questionable theories.

47. Beyond the initial steps, the discussions on international monetary reform should aim at resolving a number of fundamental problems. These are, in particular, the existing asymmetry in the treatment of deficit and surplus countries, development assistance as part of the international financial system, and the respective roles of the IMF, the World Bank, the Bank for International Settlements and the OECD in handling the balance of payments crises.
48. Although the IMF has the authority to make its assistance to countries in balance of payments deficit conditional on their accepting certain policy recommendations, the Bretton Woods system failed to provide any mechanism whereby countries in persistent surplus would be induced to bring their balance of payments into, or closer to, librium. This paralyzing asymmetry has contributed a great deal to the stringency of the IMF conditionality.
49. Development assistance has arisen only after the adoption of the Bretton Woods agreements, and it has never been fully integrated in the international monetary and financial system. Consequently, its size and modalities are largely exempt from generally accepted and binding rules. Development assistance provided by single donor countries is measured solely on the basis of a uniform target set in terms of the GNP and has so far been treated mainly as a matter of generosity. Additional incentives for governments to ensure the regular flow of resources to developing countries are needed. For example, the external position (balance of payments, balance of trade etc.) of a country exerts a considerable influence on the ability to provide assistance, especially where the surplus is of a persistent nature. Furthermore, development assistance creates export markets for the industrial countries' manufactures (especially investment goods), yet the assistance performance of single donor countries is not being assessed in relation to the balance of their trade in manufactures with developing countries.

50. It is necessary to review and to redefine the relationships between the World Bank's, the IMF's and the OECD's respective activities and their relative weight in international monetary policies. Short-term measures can be fully effective only if they do not undermine longer term development prospects. Therefore, the World Bank should efficiently participate in devising the policy recommendations to the countries seeking international assistance to overcome their balance of payments difficulties. Since the recommendations go far beyond strictly financial issues, and indeed pertain to the whole range of economic policies, the OECD should have its share of responsibility in their formulation. The policy advice given, and measures introduced, by these institutions have far-reaching economic and social consequences. Therefore, when policies are formulated and implemented there should be a full discussion with trade unions and employers, in order to arrive at workable and socially acceptable measures.

3. Development cooperation

51. Even a full-fledged recovery in the industrialised part of the world will not by itself solve the fundamental problems facing the developing countries, and low growth prospects make their solution immeasurably more difficult. It is futile to claim that economic trends which increase inequalities and imbalances in the OECD area can somehow have a beneficial "trickle-down" effect on the developing countries, if only the market mechanism is set free. Private capital flows go only to some sectors and some countries. They seldom aim at improving the economic and social structure, and more often than not remain insulated within the recipient countries' economies. In the absence of other measures, they are quite likely to increase the inequalities within and between countries. A broad range of essential investments in the developing countries will only take place through official assistance channels. The key issue is the improvement of the position of the developing countries through a development of their socio-economic infrastructure. Self-sustaining development cannot be achieved in countries where the social structure is obsolete and rapidly disintegrating.

52. The situation of some countries has become so bad that it is imperative for the OECD countries to immediately step up food and other emergency aid. People in a growing number of the least developed countries, especially in Africa, are facing starvation. An immediate increase in basic aid is a concrete matter on which the OECD's Ministerial Council and the London Summit should agree upon. Emergency measures should be followed up by assistance to develop the rural sector, in order to reverse the trend which has made many previously self-sufficient producers into net food importers. This sector must be helped so that it can be revived and properly organised, to decisively improve its productivity.

53. The economic interdependence of today's world has meant unprecedented hardships for the non-oil producing developing countries which have been hard hit by escalation of energy prices to levels which are prohibitive to them, and by the continuation of deflationary policies in the OECD area. Continuing high interest rates and energy prices, and stagnating credits, loans, assistance and direct investment have forced developing countries to restrict their imports and put their development efforts into reverse. Commodity prices, though rising, are still depressed, and the markets for most other exports of these countries remain largely stagnant. Growth in the industrialised countries is indispensable for the future of the developing countries. But the concomitant expansion of markets has to be accompanied by policies which ensure that the benefits will fuel genuine development. In particular, the benefits must be shared by the entire population of the developing countries instead of being reserved to the privileged few who have been faring well throughout the recession while poverty has been growing.

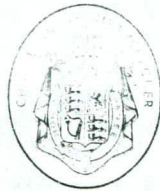
54. There can be no real economic progress on the global scale unless it goes hand in hand with the improvement of the social conditions of the working people everywhere. The poverty of hundreds of millions of people in the developing countries can, and must, be attacked by policies which at the same time help to reduce unemployment in the industrialised world. The long-term economic and employment problems in the industrialised countries can

only be solved if the issues of underdevelopment and poverty in the world are tackled. The interdependence is illustrated for instance by a recent study carried out by the Nordic and German trade unions, showing that the coordinated fulfilment of the United Nations' target of 0.7 per cent of GNP for development assistance would create a considerable number of new jobs in the OECD countries within a few years.

55. Private investment is no substitute to Official Development Assistance. Official Development Assistance must be considerably increased, and much better targeted and monitored than in the past. This assistance is vital for the development of a sound economic structure and a viable society (which includes the existence of wage structures, orderly industrial relations, social security, health and safety regulations, unemployment benefits, pensions schemes and so on). Indeed, an improvement in the economic and social structure of the developing countries will also facilitate private investment flows, and minimise their often disruptive side-effects. Any encouragement of private investment flows to developing countries should go hand in hand with greater compliance with the ILO Declaration on Multinational Enterprises and Social Policy, in which the special responsibilities of these enterprises for employment and job security have been recognised.
56. While the development process requires a much bigger quantity and variety of imports by the developing countries they have been forced, especially by the IMF austerity programmes, to drastically limit them, even imports of goods which are essential for their basic needs and their export industries. This IMF-administered cure has led into a further drop in living standards, higher food prices, power shortages, disruptions in public transport, and the postponement of development projects. Austerity programmes, quickly and rigidly imposed upon a debtor countries by the IMF, even undermine the necessary structural adjustment, and are thus self-defeating. The suspension of financial flows delays new investments, and when austerity programmes are imposed on many debtor countries at the same time, there is a cumulative downward effect on markets for goods exported by both industrialised and other developing countries.

Some of the countries facing rigid austerity programmes may have come late to the IMF, but this only demonstrates the gap between long-term development policies and the short-term need to survive. It also illustrates the speed with which the recession in the industrialised countries spread its effects to the developing part of the world and the inadequacy of the existing financial arrangements and institutions. Given that major rescue operations cannot be undertaken unconditionally, the conditions involved must be constructive. They must not put a stop to growth. It is wrong to call for cost-cutting and for the concentration of the limited resources available on one or two export sectors only; considerably more emphasis must be put on agriculture, energy, an efficient public sector, sanitation and health, tax reform, basic and adult education, and vocational education and training. It is evident that there is now a strong case for reviewing the conditionality framework of the IMF.

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FROM: MISS J C SIMPSON

DATE: 22 May 1984

MR LITTLER

cc Sir P Middleton

TUC AND THE SUMMIT

The Chancellor was grateful to you for drawing to his attention the note of the meeting between Sir Robert Armstrong and David Lea, and the follow-up note by Bernard Ingham.

MISS J C SIMPSON

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SIMPSON
→ LITTLER
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TELEGRAM NUMBER 1603 OF 22 MAY

INFO PRIORITY BONN PARIS TOKYO OTTAWA ROME UKDEL OECD UKREP BRUSSELS

PRESIDENT REAGAN'S PRESS CONFERENCE: US ECONOMY
SUMMARY

PRESIDENT REAGAN WAS QUESTIONED SEVERAL TIMES ABOUT THE FUTURE COURSE OF THE US ECONOMY AND OF US INTEREST RATES. HE SAID THAT HE EXPECTED THE US ECONOMY TO CONTINUE TO EXPAND, ALTHOUGH AT A LOWER RATE THAN IN THE FIRST QUARTER OF 1984, AND THAT INTEREST RATES WOULD EVENTUALLY COME DOWN. HE DENIED - DESPITE SECRETARY REGAN'S RECENT STATEMENT - THAT IT WAS THE ADMINISTRATION'S FIRM POLICY TO HAVE TWO TAX BILLS IN 1985, ONE TO REFORM TAXES AND ONE TO RAISE THEM. HE EXPRESSED THE VIEW THAT THE DIFFICULTIES OF THE CONTINENTAL BANK WOULD NOT GIVE RISE TO REPERCUSSIONS ELSEWHERE IN THE AMERICAN FINANCIAL SYSTEM.

DETAIL

INTEREST RATES AND GROWTH

2. IN REPLY TO QUESTIONING ABOUT WHETHER RISING INTEREST RATES COULD LEAD TO A US RECESSION AS EARLY AS THIS AUTUMN, PRESIDENT REAGAN SAID THAT HE DID NOT FEEL THAT THE US WAS HEADING FOR A RECESSION. BUT HE SAID THAT ALL THE INDICATORS SHOWED THAT THE US ECONOMY MIGHT BE ABOUT TO LEVEL OFF QUOTE A LITTLE BIT UNQUOTE FROM THE HIGH RATE OF GROWTH IN THE FIRST QUARTER (8.8 % AT AN ANNUAL RATE) WHICH HE ATTRIBUTED TO AN UNSUSTAINABLE GROWTH IN INVENTORIES. FOR 1984 AS A WHOLE, HE STILL EXPECTED GROWTH OF 5 PER CENT. HE CITED THE INDICATORS FOR HOUSING, PERSONAL EARNINGS AND PRODUCER PRICES AS ALL BEING CONSISTENT WITH ADMINISTRATION TARGETS FOR GROWTH AND INFLATION.

3. THE PRESIDENT DID NOT WITHDRAW HIS EARLIER PREDICTION THAT INTEREST RATES WOULD COME DOWN BEFORE THE END OF THE SUMMER, BUT HE MADE CLEAR THAT, FOR THIS PURPOSE, SEPTEMBER WAS INCLUDED AS PART OF THE SUMMER. HE AVOIDED A DIRECT ANSWER TO A QUESTION ABOUT WHY THE UNITED STATES MAIN TRADING PARTNERS SHOULD BELIEVE HIM THAT INTEREST RATES WERE COMING DOWN, WHEN HE HAD SAID THE SAME THING IN THE PAST. HE MERELY SAID THAT INTEREST RATES WERE LOWER NOW THAN WHEN HE HAD COME INTO OFFICE, BUT HE ADDED THAT FEDERAL DEFICITS FORECAST FOR THE YEARS BEYOND FY85 HAD BEEN EXAGGERATED.

4. IN REPLY TO A QUESTION ABOUT THE POLICY OF THE FEDERAL RESERVE BOARD, THE PRESIDENT SAID THAT THE FED WAS NOW ON TARGET, ALTHOUGH THERE HAD BEEN A DIP IN MONETARY GROWTH IN PAST MONTHS. THE PRESIDENT SAID THAT THE MONEY MARKETS HAD IN THE PAST REGARDED SUCH A DIP AS THE PRECURSOR TO EXCESSIVE MONETARY GROWTH, AS FOLLOWING THE 1979-80 DIP. BUT HE ACKNOWLEDGED THAT THE MONEY SUPPLY WAS AN INEXACT TOOL, AND THAT THE FED COULD HAVE GOT BELOW THEIR TARGET INADVERTANTLY.

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TAX POLICY

5. IN RESPONDING TO A REFERENCE TO TREASURY SECRETARY REGAN'S IDEA FOR TWO SEPARATE TAX BILLS IN 1985, ONE TO REFORM AND RESTRUCTURE TAXES, THE OTHER TO RAISE THEM, THE PRESIDENT SAID THAT HE HAD NOT HAD A CHANCE TO TALK TO REGAN ABOUT THIS. THE PRESIDENT SPECULATED THAT REGAN WAS PROBABLY ONLY TRYING TO MAKE CLEAR THAT THE TAX REFORM BILL WAS SEPARATE AND DISTINCT FROM ANY ATTEMPT TO RAISE TAXES. ONLY AFTER THE ABSOLUTE BOTTOM OF EXPENDITURE REDUCTIONS HAD BEEN REACHED WOULD HE COUNTENANCE A PROPOSAL FOR A TAX INCREASE. HE HIMSELF WAS THEREFORE NOT LOOKING FOR A TAX INCREASE NEXT YEAR, SINCE THERE WERE FURTHER EXPENDITURE REDUCTIONS TO BE MADE.

CONTINENTAL BANK

6. THE BAIL-OUT OF THE CONTINENTAL BANK OF ILLINOIS WAS RAISED AND THE PRESIDENT WAS ASKED WHETHER HE EXPECTED MORE BAIL-OUTS AND WHETHER HE WOULD, AS A CONSEQUENCE, CHANGE HIS ATTITUDE TO FINANCIAL DEREGULATION. THE PRESIDENT SAID THAT THE CONTINENTAL BAIL-OUT HAD BEEN CARRIED OUT BY A CONSORTIUM OF BANKS, NOT THE GOVERNMENT AND THAT ONLY THE DEPOSITORS WERE BEING PROTECTED, NOT THE SHAREHOLDERS. HE DID NOT THINK THAT THE DIFFICULTIES OF CONTINENTAL WOULD THREATEN THE US BANKING SYSTEM AS A WHOLE.

COMMENT

7. THE PRESIDENT'S REPLIES TO THE EFFECT THAT THE ECONOMY WAS ON TARGET, AND THAT INTEREST RATES WOULD COME DOWN, WERE TO BE EXPECTED. HE IS OBVIOUSLY KEEN, DESPITE RECENT REPORTED REMARKS BY HIS SPOKESMAN, NOT TO LINE UP WITH SECRETARY REGAN AND GET INTO CONFLICT WITH FED CHAIRMAN VOLCKER. HE WAS PLAINLY EMBARRASSED BY SECRETARY REGAN'S PROPOSAL FOR A BILL TO RAISE TAXES NEXT YEAR IN ADDITION TO ONE TO REFORM THE TAX SYSTEM. THIS IS THE SECOND TIME RECENTLY THAT THE TREASURY SECRETARY HAS EMBARRASSED THE PRESIDENT SINCE REGAN SOME WEEKS AGO PUBLICALLY REFERRED TO THE NEED TO REFORM THE SOCIAL SECURITY SYSTEM, MUCH TO THE ALARM OF A WHITE HOUSE LOOKING FORWARD TO THE NOVEMBER ELECTIONS.

8. FCO PLEASE PASS TO BOTTRIL (TREASURY), GREEN (BANK OF ENGLAND) AND ROLLO (ESID).

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ADDITIONAL DISTR
US. MONTHLY ECONOMIC
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c.c. Mr. [unclear] *mp*FROM: J.G.LITTLER
DATE: 23 MAY, 1984CHANCELLORcc Chief Secretary
Economic Secretary
Sir Peter Middleton
Sir Terence Burns
Mr. Unwin
Mr. Battishill
Mr. Lavelle
Mr. Mountfield
Mr. Bottrill
Mr. KellySUMMIT: MEETING WITH P.M. ON 23 MAY

A supplement to my minute of yesterday, in the light of the additional papers circulated late last night.

Meeting of Personal Representatives

2. Points to note from the minute from Sir Robert Armstrong reporting this meeting are:

- list of political subjects: my only comment is again to draw attention to the question of North/South relations, although it is not given prominence here;
- draft London Charter: the procedure proposed for announcement at the final ceremony: no comment;
- terrorism: evidently we cannot get an agreed declaration; a pity, and the alternative of a personal statement by the Prime Minister reporting discussion seems to me to be the best we could hope for now.

Draft Economic Declaration

3. The small additional drafting changes, listed in Sir Robert Armstrong's minute of 22 May, all seem to me to be acceptable. You may just like to note the formulation in paragraph 8, subparagraph (4), on further work of the G.10. This would not prevent the Summit from recommending the form of "further international discussion".

Text of Draft London Charter

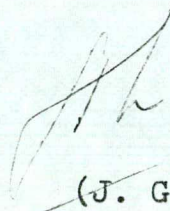
4. I think it is a pity that the Personal Representatives have lengthened the draft and one or two of the individual paragraphs. In themselves, most of the additions are unobjectionable. My

only doubt is whether it really makes sense in paragraph 4 to refer to "full employment" and in the rather clumsy phrase "full employment and education in a healthy environment". I would like to suggest a slightly shorter version:-

"We believe in economic systems which provide a healthy environment for enterprise, for economic and social progress, and for spreading to the benefit of all peoples the fruits of innovation, imagination and scientific discovery".

Draft Keynote Speech

5. The only amendment to my earlier draft is the addition of two sentences about the environment in paragraph 12. This is fine, except that I do not like the opening phrase: "It should be tempered by". Better to say "Accompanied by" or "Linked with".



(J. G. LITTLER)

pm



10 DOWNING STREET

From the Private Secretary

SIR ROBERT ARMSTRONG

✓
23/5/84

CH/EXCHEQUER	
REC.	24 MAY 1984 ✓ 24x13.
ACTION	MR LITTLER
COPIES TO	CST, EST
	SIR P. MIDDLETON
	SIR T. BURNS
	MR UNWIN

MR BATTISHILL
MR LAVELLE
MR MOUNTFIELD
MR BOTTRILL
MR C. KELLY

COLES
→ ARMSTRONG
23/5

Economic Summit

The Prime Minister held a meeting today to consider preparations for the Summit. The Foreign and Commonwealth Secretary, the Chancellor of the Exchequer, Mr. Kenneth Baker, you yourself, Sir Julian Bullard, Sir Crispin Tickell, Mr. Littler and Mr. Partridge attended.

Thematic Paper

2. The Foreign and Commonwealth Secretary and the Chancellor of the Exchequer observed that the phrase in paragraph 14.9 of the final version - "to explore with other GATT parties as quickly as possible the objectives for, the participation in and the timing of a new negotiating round" - was weaker than the corresponding phrase in the Williamsburg communique. We should therefore work for stronger wording in the London communique.

3. It was agreed that we should also aim to ensure that the communique avoided unwelcome commitments with regard to the so-called North-South dialogue (c.f. para 15 of the thematic paper).

Draft Economic Declaration

The draft of 22 May was discussed. The Chancellor of the Exchequer said that it was hoped that, as a result of recent exchanges, the US would agree to a stronger reference to the US budget deficit in paragraph 4.

The Foreign and Commonwealth Secretary observed that the language of paragraph 7 on the international debt problem was rather complacent. It was agreed that this wording would be considered further in the light of discussion at the Summit.

There was also some discussion of the various references to the problem of inflation and doubt was

/expressed

SAHAAE

expressed as to whether the dangers of inflation were sufficiently emphasised.

The Chancellor of the Exchequer said that it was desirable to refer in the Declaration to the concept of a medium term financial strategy.

The Prime Minister said that she wished to avoid, to the maximum extent possible, serious differences of view on the Declaration emerging at the Summit. It was agreed that, in sending this text to other personal representatives, you would ask them to inform you as soon as possible - and before the Summit - of any difficulties they saw in the text.

Order of discussion of agenda items

Following a discussion of the order in which the various items would be taken, the Prime Minister said that:-

- (a) the Summit should aim to agree, on Thursday evening, the text of the London Charter (on democratic values). This suggested that in effect Summit participants should have given their agreement to the text before their arrival in London. The Charter would be issued to the press at the end of Friday morning.
- (b) Heads of State and Government would also discuss East/West relations and Arms Control and Disarmament on the Thursday evening. It might also be necessary for them to discuss the Iran/Iraq war that evening and, perhaps, to commence their discussion of international terrorism.
- (c) On Friday morning Heads of State and Government would make their opening statements on economic questions. Towards the end of that morning they might need to return to the question of international terrorism which Foreign Ministers would have discussed separately earlier. It was desirable to issue a statement to the press on international terrorism on Friday evening. Over lunch discussion of political questions would continue.
- (d) Economic discussion would continue on Friday afternoon. In reporting the Finance Ministers' conclusions to the Summit the Chancellor of the Exchequer would suggest three or four broad subjects for further consideration. These

/might

SAHAAE

might be interest rates, international debt, economic recovery and the policies necessary to sustain this, and trade and protectionism.

Draft Declaration on Democratic Values (the London Charter)

It was agreed that paragraph 4 of the present text was unsatisfactory and that you would revise it, in consultation with the Chancellor of the Exchequer.

The word "overriding" should be deleted from paragraph 6. The opening sentence of that paragraph might read instead: "We believe in peace with freedom and justice".

We should aim to insert a reference to the Williamsburg Declaration on defence matters.

You agreed to revise the text in the light of the above points and submit the revision to the Prime Minister.

Draft Declaration on Terrorism

It was agreed that the idea of a Declaration should be abandoned. Instead the aim should be that the Summit would discuss the problem of international terrorism and that a statement would then be issued to the press. You agreed to submit a draft of a possible statement.

Prime Minister's Keynote Speech

This was not discussed at the meeting. I shall arrange for the Prime Minister to consider this separately.

I am copying this minute to Mr. Ricketts, Mr. Peretz, Mr. Taylor and Mr. McMillan.

A. J. Cole

23 May 1984

SAHAAE

plp

Ref. A084/1544

MR COLES

MR LAVELLE
MR MOUNTFIELD
MR BOTTEILL
MR C. KELLY

CH/EXCHEQUER	
REC.	24 MAY 1984
ACTION	MR LITTLE
COPIES TO	CST, EST
	SIR P. MIDDLETON
	SIR T. BURNS
	MR UNWIN

24/5

London Summit: Medallions

MR BATTISHILL

--- Mr Barrington has suggested that you may like to show to the Prime Minister the enclosed example of the Summit medallion which is being produced by the Royal Mint. Silver gilt versions will be presented to Heads of Delegation and silver versions to Ministers. This is the bronze version for presentation to officials and visiting journalists.

2. The Mint responded readily to the suggestion that they might provide these medallions to help them in their own promotional activities. The result, I think you will agree, is most satisfactory.

3. We are indebted to the Chancellor of the Exchequer who is the Minister responsible.

4. I am sending a copy of this minute to the Private Secretary to the Chancellor of the Exchequer.

ROBERT ARMSTRONG

ROBERT ARMSTRONG

23 May 1984

FROM: J.G.LITTLER
 DATE: 23 MAY, 1984

CHANCELLOR

cc Chief Secretary
 Economic Secretary
 Sir Peter Middleton
 Sir Terence Burns
 Mr. Unwin
 Mr. Battishill
 Mr. Lavelle
 Mr. Mountfield
 Mr. Bottrill
 Mr. Kelly

SUMMIT: MEETING WITH P.M. ON 23 MAY

A supplement to my minute of yesterday, in the light of the additional papers circulated late last night.

Meeting of Personal Representatives

2. Points to note from the minute from Sir Robert Armstrong reporting this meeting are:

- list of political subjects: my only comment is again to draw attention to the question of North/South relations, although it is not given prominence here;
- draft London Charter: the procedure proposed for announcement at the final ceremony: no comment;
- terrorism: evidently we cannot get an agreed declaration; a pity, and the alternative of a personal statement by the Prime Minister reporting discussion seems to me to be the best we could hope for now.

Draft Economic Declaration

3. The small additional drafting changes, listed in Sir Robert Armstrong's minute of 22 May, all seem to me to be acceptable. You may just like to note the formulation in paragraph 8, subparagraph (4), on further work of the G.10. This would not prevent the Summit from recommending the form of "further international discussion".

Text of Draft London Charter

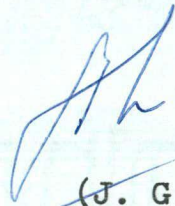
4. I think it is a pity that the Personal Representatives have lengthened the draft and one or two of the individual paragraphs. In themselves, most of the additions are unobjectionable. My

only doubt is whether it really makes sense in paragraph 4 to refer to "full employment" and in the rather clumsy phrase "full employment and education in a healthy environment". I would like to suggest a slightly shorter version:-

"We believe in economic systems which provide a healthy environment for enterprise, for economic and social progress, and for spreading to the benefit of all peoples the fruits of innovation, imagination and scientific discovery".

Draft Keynote Speech

5. The only amendment to my earlier draft is the addition of two sentences about the environment in paragraph 12. This is fine, except that I do not like the opening phrase: "It should be tempered by". Better to say "Accompanied by" or "Linked with".



(J. G. LITTLER)



OK

9

London Summit: Meats

The PM's choice for Thursday night

is chilled consommé royale
Poached salmon trout (hot)
Chicken Kiev
Grand Marnier soufflé with
strawberries + oranges.

Are you content to have this too?
You will recall you did agree in
principle.

OK

The Governor's suggestions for Friday
are below. The beef is virtually
'compulsory', as it is the only main
dish not bespoke elsewhere. The
lobster sands gorgeous, but I wonder
if it's a bit risky? * I don't think
anyone would object to raspberries
twice in one day!

OK

I gather the State Banquet will be
some sort of salmon and lamb.

* I gather the Gov's second choice would be
hot asparagus with hollandaise sauce, but
I'm not sure you're meant to know that!

PTO.

Is the invitation card ok as far
as you are concerned?

OK B.

TELEPHONE
01 - 601 4444

BANK OF ENGLAND
LONDON EC2R 8AH

23 May 1984

Miss J C Simpson
Chancellor's Office
HM Treasury
Parliament Street
London
SW1P 3AG

CH/EXCHEQUER	
REC.	23 MAY 1984
ACTION	
COPIES TO	

Dear Judith

SUMMIT FINANCE MINISTERS DINNER: 8 JUNE

We spoke about the menu. The Governor suggests as follows:

½ Lobster Americaine (sauteed in butter with shallots and chopped tomatoes, flamed in brandy and finished with herbs and white wine, served in the lobster shell)

Scotch Sirloin Steak Bordelaise, with Fondant potatoes and leaf spinach

Fresh Raspberries and Cream

I also enclose our proposals for the invitation card - which will of course be printed in its final version in the usual format.

I am copying this letter to Nicholas Barrington.

Yours sincerely

John

John Bartlett
Private Secretary
to the Governor

On the occasion of the ^{LES}(meeting in London
of Summit Finance Ministers)

THE GOVERNOR OF THE BANK OF ENGLAND
AND
THE CHANCELLOR OF THE EXCHEQUER

request the pleasure of the company of

.....

at Dinner in the Court Room
of the Bank of England
on Friday 8 June 1984
at 8.00 pm

To remind

Lounge suits
Entrance via
Bartholomew Lane



10 DOWNING STREET

From the Private Secretary

(144)

CH/EXCHEQUER	
REC.	28 MAY 1984 29
ACTION	MR LITTLER
COPIES TO	CST, EST
	SIR P. MIDDLETON
	SIRT. BURNS
	MR UNWIN
	MR BATTISHILL

MR LAVELLE
MR MOUNTFIELD
MR BOTTRILL
MR C. KELLY

MR. HATFIELD

ECONOMIC SUMMIT

I attach copies of two letters which the Prime Minister has received from the Commonwealth Secretary General, setting out Commonwealth views on certain issues which may be discussed at the Economic Summit. I should be grateful if you could let me have a draft reply.

As you know, the Prime Minister has received a number of letters urging action on particular points at the Summit. I would rather not ask her to read all these. I should be grateful if the briefs could draw attention to the most important communications and suggest to what extent the Prime Minister should attempt to bring them to the attention of Summit participants.

I am copying this minute and its two enclosures to Mr. Ricketts (FCO) and Mr. Peretz (HM Treasury).

A. J. COLES

24 May 1984

COMMONWEALTH SECRETARIAT

CABLES: COMSEGEN LONDON SW1
TELEX: 27678
TELEPHONE: 01-839 3411 Ext:

MARLBOROUGH HOUSE,
PALL MALL,
LONDON, SW1Y 5HX

Your ref:
Our ref:

From: Sir Peter Marshall, KCMG
Deputy Commonwealth Secretary-
General (Economic)

24 May, 1984

Dear Sir,

The Secretary-General, who at the moment is in Vienna, has asked me to send you the enclosed letters to the Prime Minister. Signed copies will follow on his return to London next week.

*Yours
Peter*

Peter Marshall

Mr. A.J. Coles,
Private Secretary to the Prime Minister,
Prime Minister's Office,
10 Downing Street,
London, S.W.1.

24 May, 1984

The London Economic Summit

I can well believe that you have been assailed on all sides by expressions of concern and anxious advice in advance of the Summit Meeting of the industrialised countries which you are to Chair in London next month. I would hope, nonetheless, that you would welcome an expression of Commonwealth views, particularly in the light of the outcome of the Commonwealth Heads of Government Meeting in New Delhi and what has transpired since.

The New Delhi Statement on Economic Action was noteworthy in three main respects: first, it was - and still is - the most succinct statement at Heads of Government level, and embracing both developed and developing countries, of the problems of the world economy both as regards substance and as regards the processes for dealing with them. Secondly, Heads of Government broke new ground in setting up an intergovernmental group to follow through the issues covered by the Statement. And thirdly, everyone was conscious at New Delhi that you would host the next Summit of industrialised countries and there was a corresponding expectation that the Commonwealth point of view would be fully reflected in the leadership which your long experience and familiarity with the issues would give to the meeting - and the support you can expect to receive from Pierre Trudeau in the context of the New Delhi Statement.

Developments since New Delhi underline the relevance of the Statement's message. The Commonwealth has taken note with appreciation of the lead which the UK Government has continued to take on IDA and related World Bank issues. We have also noted the outcome of the recent OECD Ministerial meeting. Yet the indebtedness of developing countries remains a most serious preoccupation.

The Rt. Hon. Margaret Thatcher, MP,
Prime Minister of Great Britain and
Northern Ireland,
10 Downing Street,
London, S.W.1.

2/

The Expert Group which Heads of Government asked me to set up has started work under the Chairmanship of Lord Lever and will, I hope, produce for Finance Ministers in Toronto a report to rank with the high-level experts' reports which Heads of Government considered in New Delhi. It is my earnest hope that at Toronto Commonwealth Finance Ministers will be able to agree on urgent action to recommend to the international community, not least when they meet at the annual Bank/Fund meetings immediately afterward. Nothing would be of more help than an authoritative statement from the London Economic Summit.

There remains the need for what Commonwealth Heads of Government described as "a comprehensive review of the international monetary, financial and relevant trade issues". The intergovernmental group, which recently met at Ministerial level under the Chairmanship of the New Zealand Prime Minister, has examined possible ways of achieving consensus on the process for such a review. I have been asked by the Ministers to undertake wider consultations. We believe that some variant of the Committee of 20 (or of its successors, the Interim Committee and the Development Committee), would be the most realistic way of carrying forward the review process which Commonwealth Heads of Government desire. We shall discuss this further when the Group reports to Commonwealth Finance Ministers at their meeting in Toronto in September, in the light of the soundings which we have taken meanwhile. The attitude of the United States and of the other leading industrial countries is crucial. Once again nothing would give the process more authority than an endorsement of its general thrust by the London Economic Summit. I attach an Aide Memoire on the proposal which Robert Muldoon has already discussed with Donald Regan.

In summary, Prime Minister, my hope is that next month's Summit will be able to provide top level, political leadership in the two areas on which Commonwealth Heads of Government laid such emphasis at New Delhi: finding the way ahead for the comprehensive review of international economic arrangements and grasping the shorter term problems, particularly on aid to the poorest and international debt. Important though continuing technical work and, indeed, intergovernmental contact at Ministerial and high official level may be, there is no substitute for a real impulse from the top.

Shridath S. Ramphal

COMMONWEALTH CONSULTATIVE GROUP ON INTERNATIONAL ECONOMIC ISSUES

PROPOSAL ON WHICH CONSULTATIONS ARE TAKING PLACE

What we have been seeking is a formula for a Committee that can tackle the problems of the world's trade and payments systems, which is capable of representing the views of all the nations and groups that are concerned with these issues, yet at the same time small enough to discuss the issues and work effectively. The preferred option is the size, representation and constituency structure of the Development Committee or the Interim Committee - that is with 22 members, adjusted if necessary to reflect the financial and trading interests of the international community, and with a high level of representation, preferably Ministers, plus the UN Director-General for Development and International Economic Co-operation, the Managing Director of the IMF, the President of the World Bank, the Director-General of GATT and the Secretary-General of UNCTAD.

This Committee could establish a group of deputies to carry out detailed work on its behalf, with a small Secretariat supported by staff drawn from the international agencies. The Group would have no executive authority and would proceed strictly on the basis of consensus consultations. If, however, any cases emerged of agreement which permitted early action through existing institutional mechanisms, these would be actively pursued. While this work is continuing, negotiations could proceed in other forums. The Group would make a progress report within a year of being constituted. The process could be initiated through Resolutions adopted in parallel on an agreed basis by the General Assembly of the United Nations, the IMF, the World Bank and, to the extent that its responsibilities are involved, GATT. The report of the Group would be to these bodies.

An alternative, somewhat favoured by representatives of the G-77, would be a Group comprising the G-10 and a representative group from the G-77 constituted, for example, by widening the Group of 5 of the Non-Aligned States to say 15. Discussion in

such a joint Group could lead to negotiations which might in time be generalised in a wider negotiation between the OECD and the developing countries. Representatives of the UN Secretary-General and the specialised agencies could participate in the same way as proposed in the first option.

Two other options have been considered: the constitution of a Preparatory Group in an ad-hoc informal Ministerial meeting organised on a Cancun-style basis, with a few Commonwealth leaders playing catalytic roles; and a Preparatory Group set up by the UN Secretary-General after consultation with governments, as was proposed at the 38th Session of the UN General Assembly. Neither of these proposals gained much support.

The Commonwealth Group believes that the first option is the best practical proposal that has emerged for the process which more and more appears to be inevitable before too long. The broad agenda which we adopted for the Group to consider is headed "Areas for consideration in the framework of world recovery and development:

- The role of the IMF, including balance of payments support, adjustment, conditionality and surveillance, SDR's and international liquidity.
- The role and resource position of the multilateral development institutions, particularly the World Bank and IDA.
- Financial flows including ODA and commercial flows and problems of external debt.
- Trade liberalisation, protectionism and structural adjustment.
- Linkages between money and finance, trade and economic development."

The agenda is substantial without being all-embracing and it is recognised that the list of issues for eventual negotiation may be contracted.

The Group intends to meet again in September, immediately before the Commonwealth Finance Ministers' annual meeting which in turn immediately precedes the annual meeting of the Governors of the Fund and the Bank. This kind of timetable appears to be feasible for a Group which would use 1985 as the year in which to do its work.

24 May, 1984

I have written you separately on the London Economic Summit in the context of the Commonwealth meeting at New Delhi and our follow-up work.

Last week, I suspect much influenced by our Commonwealth work, I was made Chairman of the United Nations Committee for Development Planning - one of the few bodies in the UN system functioning, not at an intergovernmental, but at an individual, level. We are presumed to be 'wise men'. I have the benefit of eminent Commonwealth colleagues as members of the Committee: Sir Kenneth Berrill, Gerry Helleiner, I G Patel, Bernard Chidzero; and from OECD countries: Robert McNamara, Jean Pierre Cot, Armin Gutowski and Gerasimos Arsenis. We were joined last week by Robert Neild of Cambridge and Bernard Wood of Canada, in addition, of course, to the other members.

At the end of the meeting, in addition to our report, we agreed a Statement which I send to you, as Chairman of the London Summit, and will circulate to your colleagues; you may also receive a copy of this Statement from the UN Secretary-General, to whom we sent it formally.

The Rt Hon Margaret Thatcher MP
Prime Minister of Great Britain
and Northern Ireland
10 Downing Street
London S W 1

The Statement speaks for itself. I do assure you that it came from this wide-ranging Group out of a deep concern that unless we act quickly in the areas of monetary and financial reform, international debt and the plight of the poorest, especially in Sub-Saharan Africa, greater dangers may overwhelm the world economy and many countries.

I am glad to say that the thrust of all this international thinking is supportive of the Commonwealth's conclusions at New Delhi. I am, therefore, reinforced in the conviction with which I urge the Statement from the Committee for Development Planning on you as you prepare to chair the London Summit.

With deep respect,

Shridath S Ramphal

THE UNITED NATIONS COMMITTEE FOR DEVELOPMENT PLANNING

Statement at the Conclusion of the 20th Meeting

17 to 21 May 1984

The Committee for Development Planning is one of the few standing bodies within the United Nations system whose members serve not on an inter-governmental but on an individual basis. That membership is drawn from a great variety of countries, of North and South, of East and West. Through the Committee, we work and speak as members of the human family.

As the Committee concludes its 20th session, its members underline the deep concerns for international economic co-operation, and more especially for development, which have prevailed throughout their meeting. We do so with particular awareness of the urgent need for leadership in the international community on these matters that touch the lives of several hundreds of millions of the world's people.

We draw particular attention to three areas of need which the international community must urgently address and by its responses give hope of practical fulfillment. They are as follows:

1) There have been calls from many quarters for reform of the international monetary and financial system; but with the international community failing to respond in any significant way, that need has grown steadily more acute.

It is now 40 years since the 'Bretton Woods' system provided a framework for international economic relationships in the post-war world and nearly a decade since that framework ceased to function on the premises on which it was established. During that time nations have groped towards new approaches, but without success; and no self-correcting mechanisms offer solutions. Today, there is disorder verging on chaos in several areas critical to the economic life of all nations: in currency and capital markets, in international debt and international trade, in the funding of international institutions, in international financial flows. The effect is devastating for many economies but the heaviest burdens is falling on the weakest and poorest economies and therefore on the people within our human society least able to bear that burden. We do not believe that any country or group of countries is free from blame; but major industrialised countries have a special capacity to give a lead in initiating a process of change. We do not attempt to offer a blue-print; there are many paths to reform. But we do urge that there is now a quite desperate need to devise a process of

dialogue and negotiation along practical and manageable lines through which the interests of all concerned can be pursued and the necessary reforms agreed upon and initiated.

2) Longer term reforms will by their nature take time even if a beginning is made now on devising and negotiating them. However, some elements of the crisis demand immediate attention. The current situation with regard to international debt threatens the world economy and many elements within it at a level of gravity not experienced since the 1930's. We do not believe that ad hoc responses on a case-by-case basis will suffice for much longer. Prevailing high interest rates are clearly one of the factors contributing to the present crisis. We do not choose between the many proposals being put forward, but we urge international action which faces the generalised problem that now exists in the area of international debt and, with the involvement of all concerned, produces agreement upon equitable solutions.

3) It is within the poorest countries that human suffering is greatest. At a time of world-wide economic uncertainty and recession their plight is correspondingly, even disproportionately, enlarged. Sustained concessional flows to the poorest countries therefore assume an even greater importance than usual; it is little short of an international scandal that those flows have declined in real terms and now face special jeopardy. We urge the donor countries to agree upon arrangements, whether by way of supplementary funding or otherwise, for the effective replenishment of IDA VII at a level not below \$12 billion. We urge, as well, that despite economic stringencies everywhere official development assistance, particularly to the poorest countries, be not diminished but moved steadily towards the established targets. We are convinced that not only in the long run but in short, such assistance is not a mere act of charity but in the interest of the world community as a whole. We urge the major industrialised countries to give the lead in this matter which only the world's strongest economies can provide.

As members of the Committee for Development Planning, we believe that without action now in at least these key areas of international economic arrangements the present crisis will deepen rapidly and bring incalculable suffering in human and national terms. We believe also that these consequences will bring with them their quota of political instability and upheaval. The end cost, even in money terms, will far exceed what is now involved by way of enlightened response.

U.N. Headquarters,
New York.

21 May 1984

PROVISIONAL LIST OF PARTICIPANTS

Members

- ABDALLA, Ismail-Sabri (Egypt). Chairman, Third World Forum and former Minister of Planning.
- ARSENIS, Gerasimos D. (Greece). Minister of the National Economy, Minister of Finance and former Governor of the Bank of Greece.
- CHIDZERO, Bernard (Zimbabwe). Minister of Finance, Economic Planning and Development.
- COT, Jean Pierre (France). Professor of International Law at the Sorbonne, Member of Parliament and Former Minister for Co-operation and Development.
- DE SOTO, Hernando (Peru). Chairman, Liberty and Democracy Institute, Peru.
- FURTADO, Celso (Brazil). Professor of Economic Development, Institut des Hautes Etudes, Université de Paris, and former Minister of Planning.
- GUTOWSKI, Armin (Federal Republic of Germany). President, Institute for Economic Research, Hamburg.
- HUAN, Xiang (China). Senior Adviser, Chinese Academy of Social Sciences and Professor of Political Economy, Beijing University.
- ICHIMURA, Shinichi (Japan). Professor of Economics, Kyoto University and Member, Committee for International Economic Co-operation, Office of the Prime Minister, Government of Japan.
- MCMAMARA, Robert S. (USA). Chairman, Overseas Development Council and former President of the World Bank.
- NGAMPORO, Joseph Elenga (Congo). Minister for Commerce, Government of the Congo and former Dean, Department of Economics, University of Brazzaville.
- OHLIN, Goran (Sweden). Professor of Economics, University of Uppsala and Executive Secretary, Independent Commission on International Development Issues.
- PAJESTKA, Jozef (Poland). Member, Polish Academy of Social Sciences and Director, Institute of Economic Sciences, Government of Poland.
- RAMPHAL, Shridath S. (Guyana). Commonwealth Secretary-General and former Minister of Foreign Affairs and Justice and Attorney General.

ROJO, Luis (Spain). Director-General of Research at the Bank of Spain.

SADLI, Mohammad (Indonesia). Professor of Economics, University of Indonesia; and former Minister of Mines and of Manpower.

SOBHAN, Rehman (Bangladesh). Chairman, Bangladesh Institute of Development Studies.

STANOVNIC, Janez (Yugoslavia). Former Executive Secretary of the Economic Commission for Europe.

Invited experts

DELL, Sidney, Executive Secretary, Centre for Transnational Corporations

NEILD, Robert (United Kingdom). Professor of Economics, University of Cambridge and former Director of the United Kingdom Institute of Economics and Social Research

RAJ, K.N., Former member of the Committee for Development Planning

TELLO, Carlos (Mexico). Professor of Political Economy at the University of Mexico

WOOD, Bernard (Canada). Chairman of the North-South Institute

prof
- Summit pps.

DRAFT OF 24 MAY 1984

THE LONDON CHARTER

We, the Heads of State and Government of Seven major industrial countries with the President of the Commission of the European Communities, assembled in London for the Tenth Economic Summit meeting, affirm our commitment to the values which sustain and bring together our societies.

2. We believe in a rule of law which respects and protects without fear or favour the human and civil rights and liberties of every citizen, including the right to private property, and provides the setting in which the human spirit can develop in freedom and diversity.

3. We believe in a system of democracy which ensures genuine choice in elections freely held, free expression of opinion with full respect for dissent, and capacity to respond and adapt to change in all its aspects.

4. We believe that there can be no political freedom without economic freedom. It is for Governments to set the conditions in which there can be confidence in the soundness of the currency, in which enterprise and employment can flourish, in which there can be the greatest possible range and freedom of choice, in which standards of living

can rise and society can provide care and support for those in need, and in which the lives of all can be enriched by the fruits of innovation, imagination and scientific discovery.

5. We believe in close partnership with each other in the conviction that this will reinforce political and economic stability in the world as a whole. We look for co-operation with all countries on the basis of respect for their independence and territorial integrity, regardless of differences between political, economic and social systems. We acknowledge the moral responsibilities that go with economic success, and reaffirm our keen concern about the problems of hunger and poverty in the world and our determination to help those who most need it.

6. We believe in the need for peace with freedom and justice. Each of us rejects the use of force as a means of settling disputes: each of us will maintain only the military strength necessary to deter aggression and to meet our national and international obligations for effective defence. We reaffirm the statement made at Williamsburg in May 1983. Our dedication to the rule of law, democracy and individual freedom is a guarantee of our commitment to closer and more open international relationships.

7. Strong in these beliefs, our countries are endowed with unrivalled diversity and creative vigour. With such a heritage we look forward to the future with confidence.



Foreign and Commonwealth Office

London SW1A 2AH

24 May 1984

A J Coles Esq
10 Downing Street

CH/EXCHEQUER	
REC.	29 MAY 1984
ADVIS	N Liller
Copies TO	N Lavelle
	N Botball.

Dear John,

LONDON ECONOMIC SUMMIT: PLACEMENT FOR THE MEALS
AT WHICH THE PRIME MINISTER IS HOST

I attach a note about placement at the Summit.

In view of the time factor, and prior contacts with Miss
Goodchild, I am sending this direct, with a copy to Mr Hatfield.

Yours ever,
N J Barrington

N J Barrington

copy to: PS/Sir Robert Armstrong
Cabinet Office

PS/FCO

→ PS/Chancellor of the Exchequer

LONDON ECONOMIC SUMMIT

PLACEMENT FOR THE MEALS AT WHICH THE PRIME MINISTER IS HOST

1. One of the last items on which we need decisions is the placement at meals during the Summit. The attached sheets contain proposals for the four meals concerned, but I also enclose boards so that No 10 can try various other options if they so wish.

2. The principles I have been guided by are as follows:

- (i) The main protocol positions are as agreed by the Prime Minister for the seating during the sessions at Lancaster House, i.e. the senior man on the Prime Minister's right, the second on her left, the third opposite, the fourth on the man opposite's right and so on.

I have suggested this protocol for the first dinner at 10 Downing Street. A similar protocol, at any rate with President Reagan on the right and President Mitterrand on the left, will of course be used for The Queen's Banquet on 9 June.

- (ii) For the second meal (lunch at Lancaster House) we have put the next two senior Heads of Delegation on the Prime Minister's right and left and for the third meal (dinner at the National Portrait Gallery) I have done the same for the final two Heads of national Delegations.
- (iii) This leaves the plenary lunch at Lancaster House on 9 June, with one Head of Delegation left (M. Thorn) who I have put on the Prime Minister's right. I have suggested that on her left on this occasion she might like to have Mr Trudeau. He would be the only one thus coming round for the second time as her neighbour, but this might be justified by making some allusion at the lunch, which would be appropriate, to the fact that this was Mr Trudeau's last public appearance on the international stage as Prime Minister of Canada. Also the Commonwealth connection. Such an arrangement could compensate in a minor way for the fact that the Prime Minister was not able, at this busy time, to give a lunch to Mr Trudeau during his last official visit to London.

On this occasion it also seems appropriate that the two Presidents should be sitting at a high position on the table opposite the Prime Minister.

- (iv) The other places around the table have been arranged in each case to ensure that, as far as possible, every Head of Delegation sits next to each of the others at some stage. This is in fact an extraordinarily difficult jigsaw puzzle to manage and if one place is changed many others have to be changed too. Otherwise one finds

/that

that, for example, we have put Herr Kohl next to Mr Craxi three times. As arranged at present there are only three cases where Heads of Delegation do not sit next to another (Mitterrand-Trudeau, Kohl-Craxi and Nakasone-Thorn). Despite best juggling we have been unable to improve on this. We have done the best to fill the gaps by putting these Heads of Delegation next to Foreign or Finance Ministers from the other country where possible. There are hardly any occasions when Heads of Delegation sit next to other colleagues more than once.

- (v) On occasions where other Ministers are joining the Heads of Delegation I have proposed that the Heads of Delegation should form a block in the middle, with the Ministers at either end of the table. The only exception to this is the joint lunch with Foreign Ministers on 8 June when it is suggested that the Foreign and Commonwealth Secretary should be co-host opposite the Prime Minister. At the plenary lunch on 9 June I have suggested that Sir Geoffrey Howe and Mr Lawson should be spaced out on the opposite side of the table from the Prime Minister. I have put the Foreign Ministers at Sir Geoffrey Howe's end and the Finance Ministers at Mr Lawson's end so that they can discuss business if necessary.
- (vi) The seating plan may be particularly important at the National Portrait Gallery, where the Elizabethan Room is not large, given that there will have to be seats behind for certain interpreters. As the plan comes out, I think it is appropriate that President Reagan will be opposite the Prime Minister. President Mitterrand will also be in a good position for photographs at the end of the table. Those needing interpreters are at the ends so that the latter can take space in the longer part of the room.

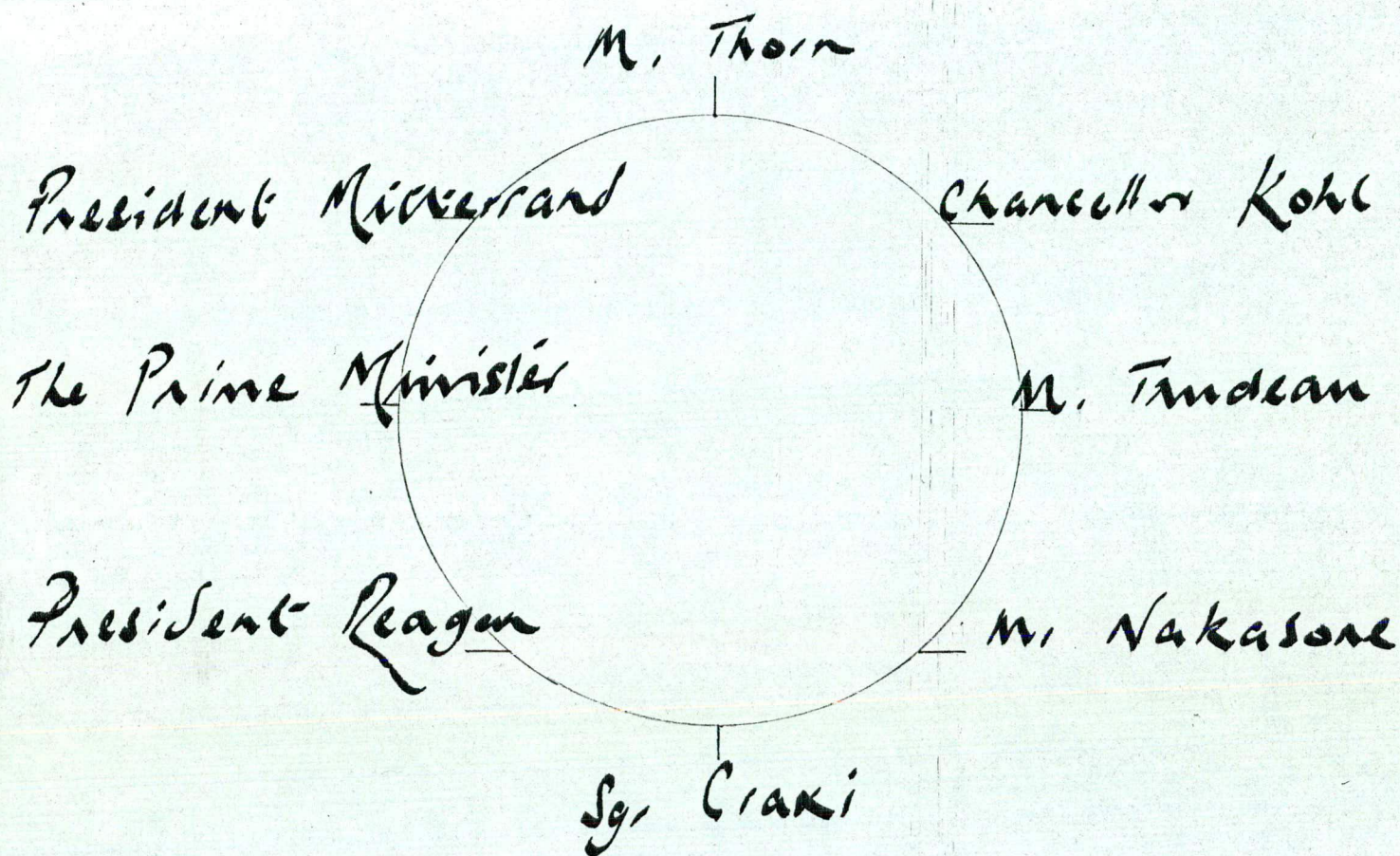
N J Barrington

N J BARRINGTON

24 May 1984

Dinner 7 June

No 10 Downing Street.



Lancaster House

Luncheon Gold Room
Heads of Delegations

8 June
and Foreign Ministers

M. Cheysson

Mr Mac Lachlan

Sr. Andreotti

Mr Nakasone

M. Thoin

Chancellor Kohl

President Reagan

The Prime Minister

Sir Geoffrey Howe

Mr Tindem

President Mitterrand

Sr Craxi

M. Abe

Herr Genscher

Mr Schultz

Dinner 8 June: National Portrait
Gallery

President Mitterand

Chancellor Kohl

M. Nakasone

President Reagan

The Prime Minister

Mr Trudeau

Sgt Craxi

M. Thorn

Menary Luncheon

State Dining Room, Lancaster House
9 June.

Heri Ganschel

Mr Abe

M. Cheysson

Mr Mac Lachlan

M. Schultz

Sir Geoffrey Howe

Sgr Aranzotti

Mr Nakasone

Chancellor Kohl.

President Reagan

M. Thorn

President Mitterrand

The Prime Minister

Sgr Craxi

M. Tancouan

Mr Lawson

M. Delors

M. Ostsi

Count Lambsdorff

M. Regan

Sgr Gorla

Mr Takeshita

Mr Lalonde



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

N J Barrington Esq
Foreign and Commonwealth Office
London SW1A 2AH

24 May 1984

Dear Nicholas,

LONDON ECONOMIC SUMMIT MENUS

I have shown the Chancellor your letter of 21 May to David Peretz about meals during the course of the London Summit. The Chancellor is quite content to have the same menu as the Prime Minister for his dinner on Thursday night.

Yours sincerely,

Miss J C Simpson

MISS J C SIMPSON
Assistant Private Secretary



MS

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

John Bartlett Esq
Private Secretary to the Governor
Bank of England
London EC2R 8AH

24 May 1984

Dear John,

SUMMIT FINANCE MINISTERS DINNER: 8 JUNE

I have shown the Chancellor your letter to me of 23 May, and he is quite content with the menu suggested by the Governor, of Lobster Americaine, sirloin steak and fresh raspberries and cream. He is also quite content with the invitation card.

I am copying this letter to Nicholas Barrington.

Yours ever,

JCS

MISS J C SIMPSON
Assistant Private Secretary



CH/EXCHEQUE	
REC.	28 MAY 1984/28
ACTION	M. Mitterrand
COPIES TO	CST EST
	SUP Middleton
	SUT Burns
	M. Bottrill M. Mowbray

Foreign and Commonwealth Office

London SW1A 2AH

24 May 1984

Dear John, M. Kelly M. Mowbray M. Maitland

London Economic Summit: President Mitterrand's Internal Policy

In view of the forthcoming Economic Summit you may like to show the Prime Minister the attached summary of an interview given recently to the independent French newspaper "Liberation" by President Mitterrand.

President Mitterrand has apparently worked over the text himself and it can be taken as a definitive statement of the way in which he would like his views to be seen.

In the Summit context, the line he takes on French domestic policy is particularly interesting and, in some important ways, close to our own approach. He claims to be trying to resolve the crisis of the French economy by modernisation and social flexibility, and by economic rigour and efficiency (paragraph 3(a) of the telegram). He also claims to have inherited a dirigiste system which dilutes individual responsibility. In his view what is needed is less bureaucracy and more efficiency, less taxes and more individual initiative (paragraph 3(d)).

The message is of course not unequivocal and the article leaves the important question of Mitterrand's long-term political objectives in the economic field unanswered (paragraph 5). But on this evidence, aspects of his present short-term approach seem to be encouragingly pragmatic. He should not therefore have too many difficulties with the macroeconomic sections of the draft Economic Declaration.

I shall be showing the Foreign Secretary a copy of this letter in parallel. I am sending a copy to Richard Hatfield (Cabinet Office) and David Peretz (HM Treasury).

Yours ever,

(P F Ricketts)
Private Secretary

A J Coles Esq
10 Downing Street

CONFIDENTIAL

BY BAG
SAVING TELEGRAM

FROM PARIS
CONFIDENTIAL

TO FCO TELNO 25 SAVING OF 16 MAY

1) cc PS / Lady Young

2) return to me

PS / PCS

Sec C T... —

Mr. R... —

E.C.D.(1)

Planning Staff.

SAVING TO ANKARA, ATHENS, BONN, BRUSSELS, COPENHAGEN, THE HAGUE,
LISBON, LUXEMBOURG, OSLO, OTTAWA, REYKJAVIK, ROME, WASHINGTON,
UKDEL NATO, DUBLIN, MADRID, CONSULS GENERAL - FRANCE

MITTERRAND'S INTERNAL POLICY : INTERVIEW IN LIBERATION ON 10 MAY

SUMMARY

1. Libération (independent left-wing daily) published on 10 May a long interview with President Mitterrand. Intellectual, subtle and carefully worked, it was clearly intended as a major statement on his internal policy and his conception of socialism. Press comment tends to see it as providing political justification for the shift since March 1983 towards more realistic economic policies. It is also forward-looking in its insistent emphasis on the need for modernisation.

DETAIL

2. The interview was conducted by Serge July, editor of Libération, the fashionable left-wing daily. The transcript was then worked over by Mitterrand for several days; so the result, which runs to 5 pages, is a definitive statement of his views in the run-up to the European elections, almost half way through his mandate. The tone is abstract, sometimes philosophical. The main theme is how France should react to economic challenges efficiently yet in a framework of social justice.

3. The full text has been copied to WED. It falls, rather arbitrarily, into 5 parts:

(a) The Economic Challenge

Although there was cause for concern over external debt, import levels, high interest rates and low growth, the economy was beginning to come round. The keys to the crisis were modernisation and social flexibility. Economic rigour was not an end in itself but a way of riding out the storm. It would work only if the sacrifices were equitably distributed. But besides increasing social equality, the Left had also introduced more economic efficiency. This was a precondition for the Left to provide a regular alternative source of French governments. The government aimed to reduce inflation in 1984 to within two points of West Germany (the best score lately having been a 5.9 difference in 1976). This year's purging of the system would permit a return to growth in 1985, which would in turn affect the unemployment curve. Also, by the end of 1985, most nationalised industries would have moved into

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/profit

profit (which had not been the case two years ago for those which then belonged to the private sector). Equitable redistribution of profits could happen only if there was something to distribute - which was difficult when so much of French industry was 20 years behind their rivals. However, "real socialist policy" lay more elsewhere: e.g. the new legislation affecting liberty of the individual, decentralisation, social reforms, third world policy, etc.

(b) Policy at the level of the firm

The austerity programme was merely an interlude while France adapted its work methods and production, and modernised its social relations, to become competitive. The firm must be everyone's business, not merely that of the shareholders. It should be freed from the administrative constraints which wore it down. "Etatism" was a typically French weakness, whether in governments of Left or Right, and must be reduced. A society of people living off assistance (i.e. 'security without risk) and a jungle society (i.e. high performance without social laws) were equally destructive.

(c) A mixed economy society

Modernisation, enterprise, innovation and competitiveness were in no way the monopoly of the Right. In practice, the government of the Left had set up a mixed economy system eschewing both the trick of economic liberalism and the trap of collectivism. As to the schools debate, no responsible person would want to abolish private education: the problem was what level of government support private schools should receive. In launching these ideas of a mixed economy, the President, as Head of State rather than party leader, had to serve all the French.

(d) Social

No national recovery was possible without social justice. Unemployment remained his major preoccupation. But each time decisions over modernisation had been put off, it had led to closures and job losses. Modernisation and training were the two tracks to follow to halt unemployment or even roll it back. Growth was also needed - but healthy growth, without inflation; and it could not be separated from social progress. The task of today's socialism was thus to harness the market to the collective interest. He had inherited a dirigiste system which diluted individual responsibility: what was needed was less bureaucracy and more authority, less taxes and more individual initiative.

(e) The crisis of the Left

There was a Right which wanted (without much success) to increase France's resources - on condition that they would not be redistributed. Then there was a Left which wanted to redistribute everything without worrying about production. But there was another Left, to which he belonged, which wanted to produce to

be able to redistribute. It was not true that the Left was becoming more conservative: turning Baudelaire on his head, he said: "J'aime le mouvement qui déplace les lignes". Finally, Europe was an essential dimension in our world which went far beyond trade, to security, peace, inventions, technical advances and the protection of nature.

COMMENT

4. The interview defined in political, if abstract and somewhat ambiguous terms, the tack the Government has been taking for the last year. Mitterrand confirms that his brand of socialism is less a matter of principles than of results, more of pragmatism than of Marx: "variable geometry socialism", as Libération described it the next day. As several commentators have pointed out, Mitterrand has always claimed that his socialism is a middle way between capitalism and collectivism.

5. Since 1981, frequently accused of presiding over an incoherent government, Mitterrand has sought periodically at press conferences and on television to reimpose his personal authority as someone leading France to a clearly-defined destination. The interview has very much this aim, as well as a secondary one of further "clarifying" communist subservience to his policies. It remains unclear whether Mitterrand now regards the creation of an efficient mixed economy as an end in itself or, as in the past, merely a transitional stage in the progress towards socialism "à la française" (commentators have been quick to point out that France already had a mixed economy for decades before Mitterrand came to power). The moderates on the Left (e.g. Rocardians) who have reacted to the interview with unreserved enthusiasm, have interpreted his remarks to mean the former; while the left wing of the Socialist Party (e.g. CERES) and the Communists, although cooler in their applause, have claimed to think that Mitterrand is still committed to further advances towards their kind of socialism. There are carefully-worded phrases throughout the interview which can be adduced in support of either thesis; but the repeated emphasis on modernisation, efficiency, enterprise and initiative and the rejection of excessive State intervention, tip the balance heavily against traditional socialist policies and panaceas. It is a brave message; but it remains to be seen whether French politicians and officials at all levels will be disposed to change their centuries-old habit of setting matters to right and whether French entrepreneurs will grow out of their equally ingrained reliance on the politicians and officials. It will not happen overnight.

6. The Opposition of course have claimed that the interview shows Mitterrand in full retreat from the policies on which he came to office. But even here a cautionary note is sounded by one commentator, who compares it to Borotra's technique of going all out to win the first set (nationalisation programme, social, fiscal and judicial reform) then letting his opponent wear himself out in the second set (the present) before making his final effort in the third (1986 legislative and/or 1988 Presidential election).

per

CH/EXCHEQU	
REC.	28 MAY 1984/28
ACTION	Mr Hittler
COPIES TO	CST EST
	Sir P. Mitchell
	Sir T. Bums
	Mr. Unwin

ARMSTRONG
→ COLES
24/5

Ref. A084/1561

MR COLES

London Economic Summit

Thank you for your minute of 23 May.

Draft Economic Declaration

2. I have sent the text of the draft Economic Declaration to other Personal Representatives as instructed. In doing so I have strengthened the wording in paragraph 14.10 of the draft, as suggested in paragraph 2 of your minute. The draft contains no reference to the so-called North-South dialogue.

Draft Declaration on Democratic Values

3. I have revised the text of the draft Declaration as agreed at the meeting. The Chancellor of the Exchequer agreed the revision of paragraph 4. I have sent the text out to Personal Representatives, with a request for agreement or any further comments before the Summit itself.

Order of Discussion

4. I have also given Personal Representatives an indication of the proposed order of discussion.

5. I am sending copies of this minute and of the revised drafts to the Private Secretaries to the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer, the Home Secretary, the Secretaries of State for Trade and Industry, for the Environment and for Transport.

REA ROBERT ARMSTRONG

24 May 1984

(Draft of 24 May 1984)

THE LONDON ECONOMIC DECLARATION

We, the Heads of State or Government of seven major industrialised countries and the President of the Commission of the European Communities, have gathered in London from 7 to 9 June 1984 at the invitation of the Rt Hon Margaret Thatcher FRS MP, the Prime Minister of the United Kingdom, for the tenth annual Economic Summit.

2. The primary purpose of these meetings is to enable Heads of State or Government to come together to discuss economic problems, prospects and opportunities for our countries and for the world. We have been able to achieve not only closer understanding of each other's positions and views but also a large measure of agreement on our objectives and on the policies to be followed in pursuing them.

3. At our last meeting, in Williamsburg in 1983, we were already able to detect clear signs of recovery from world recession. That recovery can now be seen to be established in many of the industrialised countries. It is the reward for the firm efforts made in the Summit countries and elsewhere over recent years to reduce levels of inflation and of interest rates, to control and where possible bring down fiscal deficits, and to control monetary growth.

4. But its continuation cannot be taken for granted; it requires unremitting efforts. We have to make the most of the opportunities with which we are now presented to reinforce the basis for enduring growth. We need to spread its benefits widely, both within our own countries and also to other countries, including the poorer countries who stand to gain as much as any from a sustainable growth of the world economy. Failure to reduce inflation further and damp down inflationary expectations could put recovery at risk. Prudent monetary and budgetary policies of the kind that have brought us so far will have to be sustained and where necessary strengthened. We reaffirm the commitment of our Governments to those objectives and policies. We welcome the "down payment" measures of the United States Government as an important step in the process of reducing the budget deficit of the United States.

5. Not the least of our concerns is the growing strain on public expenditure from social insurance provisions in many of the industrialised countries. Those provisions have to be kept within the limits of what our national economies can afford. We welcome the increasing attention being given to these problems by national governments and in international fora such as the Organisation for Economic Co-operation and Development (OECD).

6. To achieve sustained growth, we must make sure that the industrial economies adapt and develop in response to market needs and technological change. We must encourage flexibility in the use and remuneration of labour, and bring about the conditions in which more new jobs will be created on a lasting basis, especially for the young. We need to foster and expand the international trading system and liberalise capital markets.

7. At Williamsburg we defined a strategy for dealing with the debt burdens of many developing countries. In the pursuit of this strategy a key role has been played by the International Monetary Fund, whose resources have been strengthened for the purpose. Debtor countries have been increasingly ready to accept the need to adjust their economic policies. In a climate of world recovery and growing world trade, this strategy should continue to enable the international financial system to manage the problems that may still arise. But a significant rise in levels of international interest rates would both exacerbate the problems of the debtor countries and make it more difficult to sustain the strategy. This underlines the importance of continuing to follow policies which will be conducive to lower interest rates and which take account of the impact of our policies upon other countries.

8. We have therefore agreed -

(1) to continue with and where necessary strengthen policies to reduce inflation and interest rates, and to control budgetary deficits and monetary growth;

(2) to seek to reduce obstacles to the creation of new jobs:

- by encouraging the efficient working of the market;
- by encouraging industrial development in response to market needs and technological change, including in innovative small businesses;
- by encouraging the improvement and extension of job training;
- by discouraging measures to prop up declining industries;
- and by reducing or phasing out subsidies and other assistance which distorts markets;

(3) to study with the appropriate international organisations policies to improve economic efficiency and promote growth, in particular by harmonising standards, encouraging innovation and working for a more widespread acceptance of technological change, and facilitating the mobility of labour and capital;

(4) to invite Finance Ministers to carry forward, as a matter of urgency, their current work on ways to improve the operation of the international monetary system, including exchange rates, surveillance, the creation, control and distribution of international liquidity and the role of the IMF; and by early 1985 to complete the present phase of their work and to make recommendations for next steps, including further international discussion;

(5) to carry forward the procedures agreed at Versailles and at Williamsburg for multilateral monitoring and surveillance;

(6) to seek to improve the operation and stability of the international financial system, by means of prudent and convergent policies among the major countries, by providing an adequate flow of funding to the international financial institutions, and by improving international access to capital markets in industrialised countries;

(7) to confirm the strategy on debt and to continue to implement it flexibly, helping debtor countries to make the necessary economic and financial policy changes, taking due account of political and social difficulties;

(8) to maintain and wherever possible increase flows of resources, including official development assistance, to the developing countries, to find ways of increasing the flow of private investment, and to encourage practical measures in those countries to conserve resources and enhance indigenous food and energy production;

(9) to urge all trading countries to resist continuing protectionist pressures and to reduce barriers to trade and to make renewed efforts to liberalise and expand international trade in services (including shipping) as well as in manufactures and commodities;

(10) to accelerate the completion of current trade liberalisation programmes, in co-operation with other trading partners; to press forward with the work on trade in services in the international fora; to reaffirm the agreement reached at the OECD Ministerial Meeting in May 1984 on the importance of a new round of multilateral trade negotiations to strengthen the open liberal trading system; and to consult partners in the GATT on the possible objectives for, participation in and timing of a new negotiating round so as to permit decisions to be taken by Governments in 1985 on the arrangements for a new round.

9. We note with approval the continuing consensus on the security and other implications of economic relations with Eastern countries, and on the need to continue work on this subject in the appropriate organisations.

10. We welcome the second report of the Working Group on Technology Growth and Employment created by the Versailles Economic Summit, and the progress made in the eighteen areas of co-operation, and invite the Group to pursue further work on technology and the environment, education and employment, adaptation to technological change, trade in technology and the products of technology, and the sharing of major scientific facilities, and to report to Personal Representatives in time for the next Economic Summit.

11. We recognise the international dimension of environmental problems and the role of environmental factors in economic development. We have therefore decided to invite the Working Group on Technology, Growth and Employment to consider what has been done so far and to identify specific areas for research on the causes, effects and means of limiting environmental pollution of air, water and ground where existing knowledge is inadequate, and to identify possible projects for industrial co-operation to develop cost-effective techniques to reduce environmental damage. The Group is invited to report by 31 December 1984 on these matters. We also welcome the invitation from the Government of the Federal Republic of Germany to other Summit countries to a multilateral conference on the environment in Munich on 24-27 June 1984.

12. We thank the Prime Minister of Japan for his report on the Hakone Conference of Life Sciences and Mankind, organised by the Japan Foundation in March 1984, and welcome the intention of the French Government to sponsor a second Conference in 1985.

13. We welcome the invitation from the United States Administration to other Summit countries to participate in the development of an international manned space station, noting that a space station would be an example of the kind of programme that provides a stimulus for technological development leading to strengthened economies and improved quality of life. Other Summit countries will actively examine the possibility of accepting the invitation, having regard to their own space programmes. We welcome the intention of the United States Administration to report at the next Summit on international participation in the programme.

[14. We have agreed to meet again next year and have accepted the Federal Chancellor's invitation to meet in the Federal Republic of Germany.]

London

9 June 1984

DRAFT OF 24 MAY 1984

THE LONDON CHARTER

We, the Heads of State and Government of Seven major industrial countries with the President of the Commission of the European Communities, assembled in London for the Tenth Economic Summit meeting, affirm our commitment to the values which sustain and bring together our societies.

2. We believe in a rule of law which respects and protects without fear or favour the human and civil rights and liberties of every citizen, including the right to private property, and provides the setting in which the human spirit can develop in freedom and diversity.

3. We believe in a system of democracy which ensures genuine choice in elections freely held, free expression of opinion with full respect for dissent, and capacity to respond and adapt to change in all its aspects.

4. We believe that there can be no political freedom without economic freedom. It is for Governments to set the conditions in which there can be confidence in the soundness of the currency, in which enterprise and employment can flourish, in which there can be the greatest possible range and freedom of choice, in which standards of living

can rise and society can provide care and support for those in need, and in which the lives of all can be enriched by the fruits of innovation, imagination and scientific discovery.

5. We believe in close partnership with each other in the conviction that this will reinforce political and economic stability in the world as a whole. We look for co-operation with all countries on the basis of respect for their independence and territorial integrity, regardless of differences between political, economic and social systems. We acknowledge the moral responsibilities that go with economic success, and reaffirm our keen concern about the problems of hunger and poverty in the world and our determination to help those who most need it.

6. We believe in the need for peace with freedom and justice. Each of us rejects the use of force as a means of settling disputes: each of us will maintain only the military strength necessary to deter aggression and to meet our national and international obligations for effective defence. We reaffirm the statement made at Williamsburg in May 1983. Our dedication to the rule of law, democracy and individual freedom is a guarantee of our commitment to closer and more open international relationships.

7. Strong in these beliefs, our countries are endowed with unrivalled diversity and creative vigour. With such a heritage we look forward to the future with confidence.

B/H
on 30/5

ppp

FROM: M W N TOWERS

DATE: 24 May 1984

- 1. MR PAGE ✓
- 2. MR MONAGHAN ✓
- 3. MR LITTLER

cc PPS ✓
 Mr Bottrill
 Mr Culpin (OR)
 DF/NT
 POF: LES84(A)

LONDON ECONOMIC SUMMIT : BRIEFINGS FOR JOURNALISTS

The latest and I believe final decision on joint No. 10/Cabinet Office/FCO/Treasury official briefings for journalists in advance of the Summit is that Mr Ingham will chair a general/^{open} briefing for UK and overseas correspondents on Tuesday 5 June at 11.30am, probably in the press centre in the Connaught Rooms; Mr Robert Armstrong would be in the lead, supported by yourself and senior FCO officials, together with Treasury and FCO press secretaries.

2. This arrangement is intended to supersede the provisionally agreed arrangement whereby yourself and senior FCO officials would brief the press in the week beginning 28 May. The decision to postpone this earlier briefing was made because - I understand - there was some anxiety not to pre-empt the Prime Minister's own general on-the-record press conference to be held on Friday 1 June (3pm, also in the Connaught Rooms).

3. However, there is arguably still a case for a much more selective background briefing, for/^{invited} economic correspondents only, in the week beginning 28 May, and I wonder whether you would be kind enough to consider fitting such a briefing into your schedule next week.

4. You will recall that the Chancellor will be giving an interview on the Summit to the Financial Times on Thursday morning 31 May, for publication probably on Monday 4 June, and an interview on international issues generally to US Newsweek on Wednesday afternoon 30 May.

5. Mr Peretz might like to note that No. 10 Press Office have asked for a full transcript of the Chancellor's interview with the Financial Times in advance of the Prime Minister's press conference the next day.

M W N TOWERS

M W N TOWERS

ADVANCE COPIES

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~~28~~ 43

ECONOMIC SUMMIT

PS (6)
 PS/LADY: YOUNG
 PS/MR RIFKIND
 PS/MR WHITNEY
 PS/MR RAISON
 PS/PUS
 SIR C TICKELL
 MR ~~XXXXXXXXXX~~ Kenwick
 MR J THOMAS
 MR ~~XXXXXXXXXX~~
 HD/ECONOMIC SUMMIT
 MR BARRINGTON
 HD/ERD (2)
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 HD/ESID (2)
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 PS/CHANCELLOR OF THE)
 EXCHEQUER)
 MR LITTLER) TREASURY
 MR BOTTRILL)
 SIR R ARMSTRONG)
 MR COLVIN) CABINET OFFICE
 MR J CAINES)
 MR M BOURKE) DTI
 MR MCMAHON BANK OF ENGLAND
 MR BUIST ODA
 MS BOYS DEPT OF ENERGY

UNCLASSIFIED
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 TO IMMEDIATE F C O
 TELEGRAM NUMBER 1635 OF 25 MAY.

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YOUR TELNO 912: LONDON ECONOMIC SUMMIT: ACCREDITATION OF PRESS OFFICIALS.

1. THE WHITE HOUSE HAVE GIVEN US THE FOLLOWING LIST OF THEIR PRESS OFFICE OFFICIALS WHO WILL NEED ACCESS TO THE CONNAUGHT ROOMS:

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- ROBERT SIMS
- MARLIN FITZWATER
- MARK WEINBERG
- SANDRA SIDNEY
- V. KIM HOGGARD
- ANSON FRANKLIN
- SARAH K. MCELROY
- CONSTANCE ROMERO
- JANE THOMAS
- DAVID SLOAN
- CHRISTOPHER HENZE
- MARCIA BAGGOTT
- PEGGY SUNTUM
- WENDY MAGNESON
- ELAINE WRIGHT
- JOAN WALDEN
- GINA BRAMLETT
- CHARLES G. BAKALY, III
- GRIER P. BALLANTINE
- MARK O. HATFIELD, JR.
- JACK LACOVEY

JOSEPH P. WILKINSON
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JOSEPH O'GORMAN
HARALD QUANN
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JOE GANCIE
JIM WIRGMAN
RICHARD LAND
BILLY DALE
JOHN DREYLINGER
GARY WRIGHT
RALPH MAUSHAN
JOHN MCSWEENEY
LINDESY CULLISON
JOHN KOLOSZAR
GAY CHUCK
DAVID MONTIETH
MIKE RICCOBENE
RANDY FEDERICO
CHRIS HANSON
CHRIS FITZPATRICK
ROGER HADLEY
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NICOLE HENDON
JACK KIGHLINGER
PETE SOUZA
BILL FITZ-PATRICK
MARYANNE FACKLEMAN
CAROL GREENAWALT
DIANE POWERS
DON DEAN
CHRISTOPHER HENZE
DAVID SLOAN
ALBERT GRIFFIN
CAMILLA MCCASLIN
BRIAN BLOOD.

IN ADDITION, PASSES WILL BE NEEDED FOR ALFRED KINGON (U.S. TREASURY SPOKESMAN), JOHN HUGHES (STATE DEPARTMENT SPOKESMAN) AND MARYANN YODEN (HUGHES'S ASSISTANT).

2. THESE NAMES HAVE BEEN DRAWN UP ON THE ASSUMPTION THAT ALL HOLDERS OF BLUE, RED, GREEN AND BROWN DELEGATION PASSES WILL NOT NEED AN EXTRA PASS TO ENTER THE CONNAUGHT ROOMS.

3. THE FOLLOWING TWO FROM THE ABOVE LIST WILL ALSO NEED ACCESS TO LANCASTER HOUSE:

MARK WEINBERG
ROBERT SIMS.

4. PLEASE HOLD THE PASSES FOR DISTRIBUTION WHEN THE U.S. DELEGATION ARRIVE IN LONDON.

WRIGHT

12 Buntz

Satisfactory!

29/5

(P/P)

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 MR ~~KENWICK~~
 MR J THOMAS
 MR
 HD/ECONOMIC SUMMIT
 MR BARRINGTON
 ED/ERD (2)
 ED/ECD (4)
 ED/ES & SD (2)
 ED/NAD
 ED/WED
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 EXCHEQUER)
 MR LITTLER) TREASURY
 MR BOTTRILL)

SIR R ARMSTRONG } CABINET OFFICE
 MR COLVIN }

PRES UNIT
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MR J CAINES)
 MR M BOURKE) DTI

MR MCMAHON BANK OF ENGLAND

MR BUIST ODA

MS BOYS DEPT OF ENERGY

DD FCO 290830Z

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FM BONN 251625Z MAY 84

TO IMMEDIATE FCO

TELEGRAM NUMBER 528 OF 25 MAY

YOUR TELNO 288

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IMMEDIATE

LONDON ECONOMIC SUMMIT: GERMAN THIRD MINISTER

1. TIETMEYER'S PRIVATE SECRETARY (ROLLE) CONFIRMS THAT BOTH THE FEDERAL FINANCE MINISTER (STOLTENBERG) AND FEDERAL ECONOMICS MINISTER (LAMBSDORFF) AND THEIR OFFICIALS WILL ARRIVE IN THE GERMAN DELEGATION AIRCRAFT ON 7 JUNE. BOTH MINISTERS WOULD BE PRESENT FOR THE GREETING AT THE ORANGERY AND FOR THE RECEPTION IN ST JAMES'S PALACE. STOLTENBERG ALONE WILL ATTEND THE DINNER THAT EVENING.

2. ON 8 JUNE STOLTENBERG ALONE WILL TAKE PART IN THE MORNING AND AFTERNOON DISCUSSIONS. LAMBSDORFF ALONE WILL ATTEND THE LUNCH. BOTH MINISTERS WILL ATTEND THE DINNER IN THE EVENING AT THE BANK OF ENGLAND.

3. ON 9 JUNE LAMBSDORFF ALONE WILL ATTEND THE SUMMIT PROCEEDINGS UNTIL THE END. STOLTENBERG WILL DEPART INDEPENDENTLY EARLY THAT DAY AND THE GERMAN EMBASSY WILL MAKE HIS TRAVEL ARRANGEMENTS.

DAY AND THE GERMAN EMBASSY WILL MAKE HIS TRAVEL ARRANGEMENTS.

4. ROLLE CONFIRMS THAT NO SPECIAL PROGRAMME OR FACILITIES ARE REQUIRED FOR THE MINISTERS WHO, WHEN NOT TAKING PART IN THE SUMMIT, WILL ABSENT THEMSELVES FROM THE SCENE.

TAYLOR

NNNN

RGR PAL THANKS

10, DOWNING STREET,
WHITE HALL S.W.1

*With the Private Secretary's
Compliments*

DER BOTSCHAFTER
DER BUNDESREPUBLIK DEUTSCHLAND

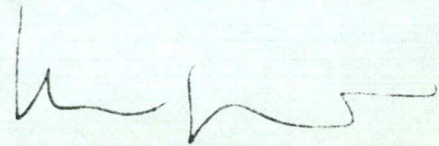
London, 26th May, 1984

Dear Prime Minister,

I have the honour to transmit to you the enclosed letter from Herr Helmut Kohl, Chancellor of the Federal Republic of Germany.

A courtesy translation is also attached.

Yours sincerely



Rüdiger Baron von Wechmar

Her Excellency
The Rt.Hon. Margaret Thatcher, MP
Her Majesty's Prime Minister and
First Lord of the Treasury
L o n d o n

L e t t e r

from

Herr Helmut Kohl, Federal Chancellor of the Federal
Republic of Germany

to

Her Excellency The Rt.Hon. Margaret Thatcher,
Her Majesty's Prime Minister and First Lord of
the Treasury

Dear Prime Minister,

Thank you for your communication of 15 May regarding the participation of the Federal Minister of Economics in the London Economic Summit. Your proposal, however, greatly disappointed me. I consider it regrettable that you do not deem it possible to take adequate account of the specific complementary function of the German Ministers of Finance and Economics in preparing a conference of such importance to economic co-operation.

It is precisely the joint action by the two ministers on which international institutions rely in their efforts to preserve the liberal economic order in the world, overcome international economic problems and promote intergovernmental co-operation. I should therefore have appreciated their responsible joint task being facilitated, especially at the London Summit. Incidentally, I have received an indication that our Japanese counterpart would not necessarily regard a concession to the German Minister of Economics as setting a precedent.

I have asked Federal Ministers Stoltenberg and Graf Lambsdorff to inform your personal representative for the Economic Summit in good time of the way in which they intend to assist each other during the conference.

Yours sincerely,
(sgd.) Helmut Kohl

GRS 790

CONFIDENTIAL [CULL]

CONFIDENTIAL

FM BRASILIA 281320Z MAY 84

TO IMMEDIATE FCO

TELEGRAM NUMBER 187 OF 28 MAY

INFO PRIORITY WASHINGTON

INFO SAVING TO OTTAWA, ROME, BONN, PARIS, MEXICO CITY, BOGOTA,
CARACAS, TOKYO

BRAZIL AND THE ECONOMIC SUMMIT.

1. ON THE EVE OF THE ECONOMIC SUMMIT IN LONDON, IT MIGHT BE HELPFUL TO YOU TO HAVE SOME RESUME OF THE FACTORS LIKELY TO AFFECT THE REACTIONS TO THAT MEETING OF THE LARGEST DEBTOR COUNTRY IN LATIN AMERICA AND THE POTENTIAL LEADER OF ANY LATIN AMERICAN GROUPING. (THE PACE OF RECENT DEVELOPMENTS, EG REACTIONS TO THE PRESIDENTIAL DECLARATION ON INTEREST RATES, HAVE PRECLUDED SENDING THIS EARLIER.)

2. BRAZIL CONSIDERS HERSELF TO HAVE MADE HERCULEAN AND LARGELY SUCCESSFUL EFFORTS IN THE PAST SIX MONTHS TO MEET THE REQUIREMENTS OF HER CREDITORS. SHE HAS PUT THROUGH A MEASURE (ALBEIT LIMITED) OF DEINDEXATION OF WAGES, WHICH HAS DISRUPTED THE SUPERFICIALLY SMOOTH METHOD SHE HAD BEEN DEVELOPING FOR MANY YEARS OF CUSHIONING HERSELF AGAINST THE EFFECTS OF ROARING INFLATION. SHE HAS GONE A LONG WAY TOWARDS MEETING IMF REQUIREMENTS, AT CONSIDERABLE SOCIAL AS WELL AS ECONOMIC COST, AND THIS AT A TIME OF INDUSTRIAL RECESSION AND WHEN LARGE AREAS OF THE NORTH EAST HAVE BEEN SUFFERING FROM UNUSUALLY SEVERE DROUGHTS AND POPULATION FLIGHTS. SHE HAS ACHIEVED A REMARKABLE SUCCESS IN THE EXPORT FIELD, RAISING HER SUCCESSIVE EXPORT SURPLUSES IN RECENT MONTHS TO A LEVEL AT WHICH SHE IS LIKELY TO EXCEED HER TARGET OF US DOLLARS 9 BILLION BY THE END OF 1984.

3. BUT BRAZIL FEELS SHE HAS DONE ALL THIS DESPITE UNSYMPATHETIC AND AT TIMES POSITIVELY HOSTILE TREATMENT BY THE VERY CREDITORS WHOM SHE IS SEEKING TO SATISFY. AMERICAN IMPORT RESTRICTIONS, PARTICULARLY IN THE STEEL SECTOR, ARE DEEPLY RESENTED: SO ARE EUROPEAN COMMUNITY RESTRICTIONS, PARTICULARLY IN RESPECT OF SUGAR. ON TOP OF THIS, THE LATEST INTEREST RATE INCREASES ORIGINATING IN THE UNITED STATES HAVE MEANT THAT OVER 50% OF HER TOTAL FOREIGN EARNINGS FOR THE COMING YEAR WILL BE REQUIRED TO MEET DEBT INTEREST ALONE. THUS SHE SEES THE FRUITS OF THE SUCCESSES IDENTIFIED IN THE PARAGRAPH ABOVE BEING LARGELY DISSIPATED TO MEET FRESH REQUIREMENTS IMPOSED WHILE SHE IS STILL FLOUNDERING.

CONFIDENTIAL

/H. AND

4. AND THESE ECONOMIC DISRUPTIONS ARE ALL HAPPENING AT A TIME WHEN BRAZIL IS GOING THROUGH AN UNACCUSTOMED CRISIS OF SELF-CONFIDENCE IN THE POLITICAL FIELD. FOR THE PAST 20 YEARS SHE HAS BEEN UNDER MILITARY TUTELAGE AND AT THE END OF THIS YEAR FACES FOR THE FIRST TIME THE PROSPECT OF A CIVILIAN PRESIDENT AND THE REAL PROGRESS TOWARDS THAT "ABERTURA" (LIBERALIZATION) TO WHICH SHE HAS ASPIRED FOR SO LONG. BUT THIS POLITICAL EVOLUTION IS SEEN HERE AS CARRYING ITS OWN RISKS. CHIEF AMONG THESE HAS BEEN THE CALL FOR THE INTRODUCTION OF DIRECT ELECTIONS FOR THE PRESIDENCY NOW, WHICH HAS PROVED ALTOGETHER TOO ALARMING FOR THE PRESENT GOVERNMENT'S RATHER SHAKY NERVOUS SYSTEM. THE MILITARY MEN WHO ARE STILL EITHER IN POWER OR DIRECTLY BEHIND THOSE IN POWER FEAR THAT DIRECT ELECTIONS WOULD BE UNPREDICTABLE ELECTIONS, AND THAT SOME WILD CARD LIKE GOVERNOR BRIZOLA OF RIO MIGHT END UP TOP OF THE PACK (THEY DO NOT FORGET THAT IN 1964 BRIZOLA URGED BRAZILIAN TROOPS TO DISREGARD THE ORDERS OF THEIR OFFICERS). AGGRAVATING THESE FEARS IS WIDESPREAD ANXIETY THAT AN OUTSIDER PRESIDENT MIGHT INSTITUTE ENQUIRIES INTO PAST CORRUPTION WHICH WOULD LEAVE MOST OF THOSE WHO HAVE HELD OFFICE HERE IN THE LAST TWO DECADES FEELING DISTINCTLY UNCOMFORTABLE.

5. AGAINST A BACKGROUND OF SUCH UNCERTAINTY, THERE IS A CONTINUAL TEMPTATION FOR PRESIDENTIAL CANDIDATES - EVEN IF THEY ARE NOT STANDING FOR DIRECT ELECTION OR ON AN OVERTLY POPULIST PLATFORM - TO BLAME ALL THE COUNTRY'S WOES ON THE BANKERS OF WALL STREET AND (TO A LESSER DEGREE) THE CITY OF LONDON AND ELSEWHERE. THIS IS THE "GNOMES OF ZURICH" SYNDROME WITH A VENGEANCE. IT IS ONLY A SHORT STEP FROM BLAMING FOREIGN BANKERS AND CREDIT INSTITUTIONS (FOR TEMPTING BRAZIL INTO IRRESPONSIBLE FINANCIAL INVOLVEMENTS) TO ARGUING THAT THE JUSTIFIABLE RESPONSE IS TO REPUDIATE DEBTS AND START A NEW SYSTEM OF GOVERNMENT WITH A CLEAN SHEET. OF COURSE THIS OVERLOOKS NOT ONLY THE DAMAGE WHICH SUCH ACTION WOULD DO TO HER FUTURE FINANCIAL REPUTATION, BUT ALSO THE LIKELY EFFECTS OF RETALIATORY ACTION ON BRAZILIAN ESSENTIAL IMPORTS: BUT THE BRAZILIANS PROBABLY CALCULATE THAT, WITH THEIR PETROL IMPORTS DOWN AND THEIR CURRENT EXPORT EARNINGS UP, THEY ARE LESS VULNERABLE TO RETALIATION NOW THAN A YEAR AGO AS THEY COULD AFFORD TO PAY CASH FOR ALL THEY URGENTLY NEED. ADDITIONALLY, THERE ARE INNUMERABLE HALFWAY MEASURES WHICH WOULD FALL SHORT OF DEBT REPUDIATION (EG CAPITALISATION OF INTEREST, PARTIAL MORATORIA NEGOTIATION, ETC) BUT WHICH WOULD BE A MOVEMENT IN THAT DIRECTION AND HAVE CONSEQUENTIAL ATTRACTIONS.

CONFIDENTIAL

6. IT IS GREATLY TO THE CREDIT OF THE NUMEROUS PRESIDENTIAL CANDIDATES - DECLARED AND SUSPECTED - THAT NONE OF THEM (EXCEPT THE OUTSIDE-RUNNER ULYSSES GUIMARAES) SO FAR HAS ADOPTED SUCH A PLATFORM. ALL OF THEM HAVE, HOWEVER (WHILE ESCHEWING REPUDIATION) BEEN HINTING AT THE ATTRACTIONS OF SOME OF THE HALFWAY MEASURES. MALUF IS REPORTED TO HAVE SPOKEN LAST WEEKEND ABOUT MEETING ONLY HALF THE OUTSTANDING DEBT, AND I HAVE BEEN REPORTING REFERENCES BY OTHER CANDIDATES AS AND WHEN THEY HAVE OCCURRED. IF THE UPSHOT OF THE LONDON SUMMIT IS SUCH THAT IT WILL BE PRESENTED HERE AS A BASICALLY NEGATIVE EVENT FOR BRAZIL, I FEAR WE WILL SEE MUCH MORE OF THIS TENDENCY. THERE WILL ALSO BE MORE INCLINATION TO STRESS THE MENACING PASSAGES OF THE RECENT DECLARATION BY FOUR LATIN AMERICAN PRESIDENTS (MY TELNO 180): WHILE AT PRESENT I THINK THERE IS SOME EVIDENCE TO SUGGEST THAT SUCH PASSAGES OWE MORE TO UNHELPFUL ARGENTINE PROMPTING THAN TO BRAZILIAN INITIATIVE.

ns.
a number of news bsp

7. IF, ON THE OTHER HAND, REAL MEASURES CAN BE TAKEN TO EASE - HOWEVER INDIRECTLY - THE REPAYMENT BURDEN, AND IF STATEMENTS AND COMMUNIQES CAN EXPRESS CONCERN AND SYMPATHY FOR THE REAL PREDICAMENT OF BRAZIL AND ITS CO-DEBTORS, THEN I THINK WE HAVE SOMETHING FOR THE MANY SOBER AND WELL-DISPOSED ELEMENTS IN GOVERNMENT AND MANAGEMENT HERE TO BUILD ON: AND BRAZILIAN PROBITY, GOOD SENSE AND SELF-INTEREST WILL HAVE A REASONABLE CHANCE OF ENSURING THAT IRRESPONSIBLE POLICIES DO NOT WIN OUT.

FCO PASS ALL SAVING ADDRESSEES.

[REPEATED AS REQUESTED]

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FINANCIAL
S AND

ADDITIONAL DISTN
ECONOMIC SUMMIT

29/5/84

OUTLINE
PROGRAMME

Thursday Dinner

1. Outline and confirm programme.
2. World economic recovery.
3. Interest rates.
4. Report of G.10 work.
5. Unitary Taxation.

Friday Morning

- ~~1. Report on discussions of previous evening.~~
2. International Debt
3. IDA.

Friday Lunch

Making markets work better:

1. Domestic economic policies.
2. Trade policies and protectionism.

Friday Dinner

Further discussion of international debt and related issues.

We welcome the important "down payment" measures of the United States Government as an initial step in the process of reducing the budget deficit of the United States, and the determination expressed by the President of the United States to follow this up by putting in place a medium-term programme for substantially reducing the deficit further, primarily by cutting Government spending.

DRAFT
PASSAGES

Finally, a brief word about the work of the Group of Ten Finance Ministers and Central Bank Governors. Following the request made at the Williamsburg Summit, we asked the Group of Ten, then under the chairmanship of Jacques Delors, and more recently led by Giovanni Goria, to study aspects of the international monetary system. The study is covering exchange rates, international liquidity, and the role of the IMF. It is also covering what is called "multilateral surveillance": a piece of jargon that stands for the need we all see to consider how the development of our economies and the policies we follow inter-act with each other; and to be prepared to adapt them if necessary, within a medium-term framework. These studies in the Group of Ten are not yet complete. But we decided at a recent meeting that we would work to produce a report early next year. We have in mind that the report should then be discussed by Finance Ministers from all parts of the world at a special meeting of the IMF Interim Committee next year, with a view to reaching conclusions.

CHECK-LIST: WORLD ECONOMIC RECOVERY

1. Satisfaction with progress.
2. Benefits spreading world-wide.
3. Re-affirm non-inflationary strategy.
4. Prospects increasingly robust, subject only to worry about interest rates.
- [5. Unemployment: consider under heading of "making markets work better".]

29/5/84

MAKING MARKETS WORK BETTER

(See also Briefs Nos 3 and 5)

Domestic economic policies

Reduction in public sector size important to allow greater scope for markets to work and for private choice.

(i) Share of public spending in OECD GDP up from 30 per cent in 1960 to more than 40 per cent now. US and Japanese shares 35 per cent. European countries close to 50 per cent.

(ii) Tax burden now almost 40 per cent of OECD GDP.

(iii) Social spending now close to 60 per cent of all OECD public spending.

(iv) Government aid to industry, subsidies and tax concessions - need to ensure adjustment in declining industries is not impeded and aid to growing industries is not excessive. Avoid international distortions. OECD to study in country reviews.

(v) Goods and factor markets - need to preserve competition in goods markets and avoid tax/subsidy distortions to capital and labour costs.

(vi) Financial markets - flexible capital markets essential for efficient savings/investment decisions. Note US deregulation of interest rates and latest Japanese measures.

International aspects

(i) Trade liberalisation - welcome agreement to Phase I of OECD rollback. Need concessions from all in Phase II.

(ii) GATT round - should cover services, agriculture and NICs.

(iii) Mixed credits - OECD to study discipline and transparency. Hope can move to limit and phase out.

(iv) Exchange controls - US, Germany, Japan and UK have removed them. Important to allow access to capital markets.

(v) Financial markets - Japanese measures to improve working of Euroyen market and opportunities for non-resident financial institutions useful step in right direction.

MAKING-
MARKETS
WORK
BETTER

29/5/84

DISCUSSIONS OF MONEY AND FINANCE ISSUES

1. The Williamsburg Summit invited Ministers of Finance "in consultation with the Managing Director of the IMF, to define the conditions for improving the international monetary system and to consider the part which might, in due course, be played in this process by a high level international monetary conference". The analytical work has been launched under the aegis of the G-10 and Ministers are to receive the final report from their deputies in the spring of 1985.
2. There is a considerable conviction and expectation on the part of many developing countries and a few developed countries that there should be a broadly based international conference with universal participation to review the international monetary system and the whole network of finance and trade relations.
3. The Summit countries did wish not to prejudge the eventual outcome, while recognising in the Williamsburg Declaration the need for an early review of existing arrangements, at least in the international monetary field.
4. The Summit countries all would agree that the existing consultative bodies of competent institutions (for example, the IMF Interim Committee, the IMF/IBRD Development Committee, and the GATT CG18) should be fully used for expeditious examination of international economic arrangements and of possible improvements in them. Until such reviews are undertaken it would be premature to give consideration to calls for a "universal conference".
5. In the international monetary field, it will be necessary for the G-10 countries to report to the entire IMF membership on the results of their work and to seek a broader consensus on whatever conclusions they reach. It would be natural to use the Interim Committee for this purpose, since it is a "high-level" and "representative" forum. The G-10 deputies' report to Ministers should be available in sufficient time before the meeting to enable the rest of the membership to prepare their own views. This should still permit a special session of the Interim Committee to be held before the next Summit.
6. Outside the monetary field there are many other international financial matters of concern to all of us, notably the capital requirements of the developing countries, sources of private and official finance, external indebtedness problems, and related trade matters. Should we not use the Development Committee as a useful forum in which to consider these issues that are not on the G-10 agenda with

appropriate representatives of developing countries? The Development Committee could meet back to back with the special session of the Interim Committee.

7. To encourage genuine dialogue and to avoid the appearance of decision-making, a special seminar-style meeting of the Development Committee might be held in May 1985. (The February 1984 OECD symposium on long-term challenges is a good prototype.) Limiting attendance to no more than two per constituency, dispensing with communiquees, using lead-off speakers and avoiding set speeches would all contribute to useful exchanges.

8. To prepare for a Development Committee discussion of these trade and payments issues, the IMF, World Bank, and GATT might be asked to prepare background papers for the proposed spring 1985 seminar. The Fund could prepare projections to 1990 for LDC growth and implied investment requirements, the likely scope for domestic savings and possible sources of external funds. The Bank could look at development prospects, structural adjustment, and associated issues of public and private sector financing. The GATT could expand on trade-related matters. The Executive Boards of the IMF and IBRD could review these papers and the Executive Secretary of the Committee, in consultation with the two Boards and the GATT, could prepare an annotated agenda, working from a commonly agreed list of topics.

9. To assist in launching this proposal, we may need to consider now what prior consultations we would need to have among ourselves and with others, including the institutions which would be involved. Furthermore, if we are to proceed on this course, we might wish to consider having an informal dinner meeting of this group on the eve of the Development Committee in Washington, D.C. this fall.

POSSIBLE TIMETABLE

<u>DATE</u>	<u>MEETING</u>	<u>ACTION</u>
June, 1984	London Summit	Supports consideration of relevant longer-term monetary issues by Interim Committee and other financial issues by Development Committee
Sept., 1984	Summit Finance Ministers	Agrees on desirable work program for financial issues
Sept., 1984	Interim Committee	Agrees to hold special seminar session in spring to consider G-10 report
Sept., 1984	Development Committee	Agrees to hold special seminar session in spring; invites IMF, IBRD, and GATT to draft papers; instructs Executive Secretary to develop annotated agenda
March, 1985	G-10 Deputies	Completes report on review of international monetary system
April, 1985	G-10 Ministers	Approves report of Deputies and transmits to broader international community for Interim Committee consideration
May, 1985	Interim Committee seminar	
May, 1985	Development Committee seminar	

Note: The Commonwealth Finance Ministers will meet in Sept., 1984, to discuss areas of possible consensus and may refer these to the Interim and Development Committees.

29/5/84. D

SECOND FORMAL PLENARY SESSION, HEADS OF STATE/GOVERNMENT AND FOREIGN AND FINANCE MINISTERS

1515

PM Declaration on Democratic Values. Get out quickly. Go through it. Paras 1, 2 and 3 cleared. 4 amended to meet Mitterand and others. Happy? Mitterand agreed. Kohl agreed, Craxi agreed. Para 5 agreed. Para 6= old paras 6 and 7. "We believe that in today's world the security of each of our countries is of concern to us all." Insert as 3rd sentence. Mitterand happy with first sentence. It was Trudeau who didn't like it.

TRUDEAU I believe in the need for peace for our peoples with freedom and justice.

KOHL Leave it, could be difficult for my divided Germany.

TRUDEAU I don't understand.

GENSCHER Explained Germany problem. We want peace for all European peoples, not just our own peoples. We are not intervening in other people's systems. But peace is a general ideal.

REAGAN Supports Kohl. Leave it as it is. Regret omission of reference to security.

CRAXI Agreed.

TRUDEAU Subdued but not convinced.

PM Reinsert as 3rd sentence: "We believe that in today's world the security of each of our countries is the concern of us all".

MITTERAND

My objection remains the same. This is an Economic Summit. I am not going beyond that. I accept that, but do not let us get into an argument about alliances.

MITTERRAND

Consequently I would not commit myself to solidarity, across the world (though PM's argument deals with that). Be happy to put my name to a text which refers to our existing alliances.

PM "We believe that in today's world the security of each of our countries depends on the strength of our several alliances".

REAGAN "Concern" does not mean that anything is to be done. Is it a language problem?

PM "Is of importance to us all"?

MITTERRAND No; don't apply term only to military security. I cannot give way on this point.

PM "We believe that in today's world security of each of our countries is of importance to us all; that is why we are members of our existing alliances".

ANDREOTTI That is ambiguous. Say something in first sentence.

PM If we exclude this sentence we send the wrong signal.

NAKASONE [Not recorded]

PM "We believe that in today's world the alliances in which we are members give vital expression to the principle that the security of each of our countries is of importance to us all".

CRAZI [A no good formula]

MITTERRAND

No. This refers to possible new alliances.

PM

"We believe that in today's world the independence of each of our countries is of importance to us all".

MITTERRAND

OK. No military significance.

REAGAN

I buy it.

PM

"Concern" not importance.

MITTERRAND

OK

Prime Minister
Andreotti

Paragraph 7 agreed.
(back to 6). First two sentences agreed; second confirmed to ourselves.

Prime Minister

Earlier sentences refer to "each of us".
Draft agreed.

Chancellor of the
Exchequer 15.55

Back to economy.
Recovery established. Go on with sound policies.
International debt.
Progress on basis of Williamsburg communique.
Some debtors making adjustments. No global approach. Case by case. Help from international financial institutions. Not reasonable to expect long-term needs to be met by commercial banks to present extent. More private direct investment. Closer co-operation between IMF and IRD. We must open our markets to trade from debtor countries. If good boys long-term rescheduling.
Hope Summit given impetus to open trading system. Remove rigidities in labour and capital markets and in industry.
G10 work - multilateral surveillance. Studies not yet complete but working to agree a report early next year to go to interim committee in first half of next year.

Prime Minister

Start with international debt. Deal with on case by case basis. Investment in debtor countries; need to strengthen commercial bank balance sheets.

Trudeau

We fool ourselves if we think that case by case will satisfy the debtors. A general problem which is causing great anguish.

Prime Minister

Specific solutions tailored to individual needs within a framework.

[Page missing]

Protectionism of new round?

Mitterrand

I accept need to prepare new round. But we have not ended what was undertaken in 1982. We should approach a number of non-aligned countries. But don't set dates.

Prime Minister

I am inclined to agree not dates: we are only a small part of GATT.

McEachem

At Williamsburg we agreed to resist protectionism, and suggested a system of monitoring. Our monitoring systems have improved through OECD and GATT, so that we have better ideas of what has been done.

OECD agreed to bring forward completion of Tokyo Round by one year.

New round: we are prepared to consider preparations and negotiations. We will accept preparations in 1985 for negotiations in 1986.

At GATT Ministerial in 1982 we agreed a programme many of the items need decisions by fall of 1984. We have fallen badly behind in completion of 1982 programme. If we are to have credibility on new round we should get on with completing the 1982 programme. Developing countries will be watching this as an indicator.

SHULTZ

Support Canada. GATT the place for negotiations: we should give impetus "welcome intensified discussion in 1985 with a view to Ministerial meeting by end of the year". Summit statements in resisting protectionism had some more good than people allow for. A proportion of what is really needed is excluded from GATT being said in GATT are very important: Summit should give impetus.

THORN

We are agreed on essentials. We cannot repeat too often that we must react against protectionism. Let us complete the work we are committed to. Let us concentrate the preparatory work for new round. Do not let us try and prescribe dates, broaden the circle of discussion. We can see by next Summit whether circumstances are propitious to launch new rounds.

STOLTENBERG

Back to debt. No one recommended a global solution but we have to talk about criteria. Banks seeking to talk about criteria among themselves. We make efforts to adjust we should undertake multi-year rescheduling. We shall have to take account of this in our national budgets. We have worked successfully in strengthening IMF. Quotas were increased we agreed credit arrangements.

Nonetheless, recognising the fact that we are not going to be able to solve i c crisis rapidly. IMF may have renewed liquidity problems in 1½ to 2 years. How could we further expand room for manoeuvre of i f i? Prepare proposals and place for that - the developments of interest rates recently means that the scenarios of the IMF no longer fits the present solution.

30

ABE We must complete implementation of GATT programme.
We should also say here that we should proceed
with preparations for new round.

PM Declaration on Democratic Values approved for release?
Agreed. OK for release.

KOHL In debt a lot more than economic issues is at stake.
Makes solidarity of western nations quite clear.
It has become very important. It is of overwhelming
political importance . Communicate a political
message.

REGAN We have to stay on a case to to case basis. Different
syndicates for different countries and different
countries require different solutions. Some problems
in common. These countries should open their borders
to equity investment. Communique should stress

PM Heads of State or Government discussed this. Equity
capital also provides expertise .

CRAXI Meeting should send a clear message to those expecting
one. Not just debtors but those who look for trade
liberalisation and poor countries who cannot export
much and cannot borrow commercially. Say something
clear on all these problems. Mrs Gandhi has proposed
a preparatory meeting. We should work out a reply
based on practical application of proposals made in
Declaration of Democratic Values.

REAGAN Describes UK programme to help countries and persuade
them to remove barriers to investment. We have sent

agricultural experts to many countries.
Caribbean initiative; and now a programme for
Central America.

PM

We have a letter from Mrs Ghandi. We do not want a
new forum.

2418 commendations. We are a task force working on implementation

(Not recorded)

KOHL

(Not recorded)

MITTERRAND

It is impossible not to refer to the problem of interest rates. But it is not up to us to point the finger in the communique. So I would be all in favour of leaving the sentence out.

SHULTZ

7 countries round the table; only one will lower ration of deficit to GDP (Germany). UK the same, the rest higher. As to size, Europe's aggregate deficit as high as US.

REAGAN

There are three references to interest rates in draft. (3, 4 and 8) without singling out the US.

McLACHAN

Agreed with again. We have discussed the problem, do not single out US. We said earlier we would pursue prudent monetary policies and control deficits.

NAKASONE

Agree, inappropriate to single out US. If we have a mention, add US to draft.

PM

No specific references to US; really on general statements referred to question of this morning; why US and Japan so much better at creating jobs? More flexibility in labour market? Social Security in Europe? More structure rigidity in Europe? Need to give hope to young. How flexible are Japanese workers on wages?

29/5/84

P cc Mr Peters
Sir P Middleton
Mr Little

LONDON ECONOMIC SUMMIT : BRITISH BRIEFINGS

Re 7/6

British Officials or Ministers will brief at approximately the following times:

Thursday 8⁷ June

1700	Curtainraiser	Mr Ingham, Mr Goulden
2300	Dinner discussions	Mr Ingham, Mr Goulden, Mr Culpin

Friday 9⁸ June

1000		Mr Ingham, Mr Goulden, Mr Culpin
1300	Morning's discussions	Host briefing by Sir Geoffrey Howe (by close circuit TV)
1330	Morning's discussions	Mr Ingham, Mr Goulden, Mr Culpin
1500	Lunchtime discussions	Host briefing by Sir Geoffrey Howe
1800	Afternoon's economic discussions	Host briefing by Mr Nigel Lawson
2300	Dinner discussions	Mr Ingham, Mr Goulden, Mr Culpin

Saturday 10⁹ June

1000		Mr Ingham, Mr Goulden, Mr Culpin
1300	Morning's discussions	Mr Ingham, Mr Goulden, Mr Culpin
1600	Joint Statement	Prime Minister at the Guildhall
1630	Press Conference	Prime Minister at Connaught Rooms

Timings will be confirmed by close circuit television in the Connaught Rooms and on the Summit Information Service.

Except where stated, briefings will be in the British Briefing Room on the first floor at the Connaught Rooms.

bcc: Mr Roberts, ESPU
Mr Culpin, P.O. Treasury
Mr Ingham, P.O. No 10

29/5/64.

That's. I have and... wish to add still on - (G) - Union tax... 1964.

C
This is the Peretz version. The About 9 minutes I think (but the debt section should be shorter, probably, for the reason noted).

DRAFT PLENARY SESSION REPORT

(To be made by Chancellor of the Exchequer)

Also, below, is the Litter mark II version.
ALP

Prime Minister, Heads of State and Government, colleagues

We have concentrated in our discussions among Finance Ministers on two ~~main~~ subjects, ~~ones that are of course~~ of ~~great~~ ^{particular} concern, interest rates and international debt. We also exchanged views on the prospects for the world economic recovery. And we discussed a variety of ways of making our economies more open to change - that is making markets work better; and we also took stock of the work being carried out in the Group of Ten on international monetary questions.

The world economy is ~~growing at a steady rate~~, and that ~~is to be welcomed~~. ^{*emerging vigorously from recession.*} Each of our economies is in a better state ^{*without any resurgence of inflation.*} than it was a year ago, and the prospects are improving. The ^{*firm*} ~~policies we have followed~~, ^{*and financial*} of containing monetary growth, and ^{*clearly worked.*} ~~public expenditure and borrowing are working~~, and ^{*have been successful*} beginning to ^{*show*} ~~show results~~.

We particularly welcomed the evidence that ^{*AL*} ~~this~~ recovery is now spreading ^{*throughout the world.*} ~~beyond our own economies~~. We expect some 5 per cent growth in world trade this year, compared with no growth last year, bringing benefits to debtor and ~~other~~ developing countries. ^{*in particular.*}

We should like this Summit publicly to reaffirm ^{*our*} ~~the~~ determination we ~~all~~ have to persist in the economic and financial

policies we have been following so far. It will be helpful to assure the public and markets alike of our determination to stick to this medium term strategy.

We are all concerned by the very high level to which real interest rates - particularly dollar interest rates - have risen.

We discussed the relationships between interest rates, inflation, budget deficits and exchange rates. I cannot claim we reached full agreement, and the relative weight of different factors may indeed differ from one country to another and over time. But we do agree that if both nominal and real interest rates are to be brought to lower levels then two things will be needed:

- inflation must be kept down;
- so must public expenditure and public sector deficits.

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We also need to convince markets that both these aims will be met, particularly in the ~~largest of our economies: the~~ dominant US economy. The US authorities have had striking success in getting inflation down, and have stressed their determination to keep it down. On the budget deficit [passage to be drafted later].

~~It is of course~~ ^R recent interest rate movements that have focussed particular attention on our second area of special

concern: international debt.

There has been some progress here during the last year. The approach outlined in the Williamsburg communique has helped, as also has the growth of world trade.

But there are still concerns about the future. The rise in interest rates has added to the immediate costs of debt service. It also threatens to undermine the will or ability of governments in some debtor countries - but I stress only some - to continue to tackle their problems in a ^{responsibly} sensible way. There has been talk recently of concerted action ^{by debtors} against creditors.

We remain convinced that ideas of "global solutions" to the debt problem are not helpful. The answer is not to be found in resorting to inflationary supplies of new finance. We hold to the main elements of the approach we have followed:

- the case by case approach, with the problems of each debtor country considered separately;
- the need for debtor countries to take steps to put their own economies and finances on a sound basis;
- a continued central role for the IMF.

But we are agreed that we now need to develop this approach in a number of ways.

[N.B. But some of these debt parts will not have been discussed fully until Friday evening, i.e. after this report]

~~The first,~~ Looking to the longer-term, both debtors and creditors alike need to recognise that it is not reasonable to expect long-term development needs to continue to be ^{to the extent of recent years} financed by commercial bank lending. What is needed both for future flows, and in substitution for some existing bank debt, is ~~the increasing development of finance~~ ^{of a kind} more appropriate to the debtors' needs: long-term private ^{direct} ~~equity~~ and portfolio investment. We should like to see governments of both debtor and creditor countries encouraging this; and have noted that such flows could ^{also} play an important ^{and more} immediate role in substituting for bank debt where they ^{place} ~~represent~~ the acquisition of existing assets.

Also in the longer-term, we ~~intend to pursue~~ ^{set out in m/} closer co-operation between the two main international financial institutions: the IMF and the IBRD. We would also welcome a stronger role for the IBRD in helping to attract private capital for developing countries on a long term-basis; and in monitoring the progress of development and ^{pursuit} prudent economic policies by borrowers.

Just as we hope debtor countries will be prepared to open their markets to larger flows of inward private investment; so our own countries have an important part to play - through the pursuit of more open trading policies - in opening up our markets to the ^{exports of the} ~~goods that~~ debtor ^{countries.} ~~countries produce.~~

Turning to more immediate action we welcome - and hope the Summit will welcome and encourage - suggestions that have

been made that in suitable cases, where debtor countries have shown ^(a clear) determination to ^{but then own houses in order} pursue sound policies, ~~it might suit both them and creditors alike to agree to rescheduling over a period of years.~~ ^{there should be a multi-year rescheduling of the debt.} We are agreed also that we should stand ready to consider parallel action in respect of the direct credits of our governments and government agencies.

We have spent some time debating measures to ease the immediate interest rate burden. ^[Passive to follow.] ~~We are convinced that techniques for this exist, and that this is a matter that could, where necessary, be resolved in discussion between creditors and debtors.~~

We have also discussed the positions of commercial banks in our own countries, whose balance sheets have inevitably been affected.

but on reflection this will not be discussed until Friday evening

C We have it in mind to ask our central banks to give urgent further consideration to how techniques for handling sovereign debt within the banking system might be improved [including the possibility of encouraging a greater role for marketable debt instruments].

Turning to trade we hope that the Summit will give a new impetus to the ~~difficult~~ process of international liberalisation. As well as attacking the more obvious forms of protectionism, we would like to see concerted moves to reduce non-tariff barriers and trade distorting export subsidies.

We also attach importance to making our internal economies more flexible and open ~~in a similar way~~. We have much to learn from each other in working to remove labour market rigidities, inflexible and out-dated practices in industry, and in removing out-dated and damaging government controls and restrictions which prevent markets working properly, and inhibit change.

Finally, a brief word about the work of the Group of Ten Finance Ministers and Central Bank Governors. Following the request made at the Williamsburg Summit, we asked the Group of Ten, then under the chairmanship of Jacques Delors, and more recently led by Giovanni Goria, to study aspects of the international monetary system. The study is covering exchange rates, international liquidity, and the role of the IMF. It is also covering what is called "multilateral surveillance": a piece of jargon that stands for the need we all see to consider how the development of our economies and policies we follow inter-act with each other; and to be prepared to adapt them if necessary, within a medium-term framework. These studies in the Group of Ten are not yet complete. But we decided at a recent meeting that we would work to produce a report early next year. We have in mind that ~~it should be discussed, then, in a suitable wider international forum~~ ^{the report} ~~and suggest that this Summit should agree to propose that the report should be considered~~ ^{then be discussed by Heads of State} ~~at a special meeting of the IMF Interim Committee next year,~~ ^{by Finance Ministers from all parts of the world} ~~with a~~ ^{with a} ~~reading~~ ^{reading} ~~conclusion.~~ ^{conclusions.}

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ECONOMIC SUMMIT

Keynote Speech

Warm welcome to London - and to this opening session of our Economic Summit.

May I extend a special welcome to Signor Craxi, the only head of delegation who was not present at the very successful Summit held in Williamsburg under President Reagan's chairmanship last year.

We all have much experience of talking together. I am confident that that will enable us to achieve, in the next two days, a great measure of common understanding and agreement.

The recovery of the world economy has made welcome progress since our meeting last year. We shall want at this meeting to concentrate on how to sustain the recovery over the coming years and how to tackle the problems which remain.

At recent Summits we have agreed that our objective is recovery associated with the continued reduction of inflation. We have further emphasised the need, in pursuing that aim, to discipline monetary growth, ~~and~~ public ~~expenditure~~ *borrowing* expenditure.

The recovery will be sustained only if we pursue it on that basis. This is not an easy or comfortable strategy for any of us. But we know that the freedom, strength and prosperity of our societies could not survive a continuation of the undisciplined and indulgent policies of the ~~last~~ *last 1970s* decade.

Looking back we can now see that when we met at Versailles we were at the nadir of the recession. Last year we were able to welcome the first signs of recovery. Today we can say with more confidence that the recovery is strengthening, that its effects are spreading widely, and that the shape of the recovery, based on the strategies we have adopted, gives good grounds for hoping it will be sustained.

That must surely be the first message to go out from this Summit meeting: the strategy is the right one: it is working; and we intend to stick to it.

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Among ourselves we need to acknowledge that there is still much to be done. All our countries, in different degrees, have made progress in reducing inflation. But we have not got it out of the system yet. There are many pressures which could spark it off again. We must all be conscious of worry - for our own economies and even more for the prospects of many debtor countries - over the level of interest rates in the United States, with its consequences for other countries. We cannot credibly claim to have mastered inflation and set the basis for sustained recovery while interest rates are held so high.

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A basic problem for all of us is the need to restrain public expenditures in the face of widespread pressures and against the easy expectations which have unfortunately built up in the past years and which are still powerful. We face heavy commitments and rising demands for social security provisions in most of our countries. The real humanitarian needs must not be denied. But none of us can afford more than we can effectively earn or prudently borrow. We need to establish and keep limits. And we need to curb expectations. This is another - a sterner but very necessary - message which we need to convey to our people.

on the issue of
the current issue
of balance of payments

In the world outside our own countries and economies a pressing problem - ~~currently the subject~~ ^{of considerable} concern - ~~is that of debt.~~ ^{is that of ~~debt~~ ~~and~~ ~~international~~ ~~financial~~ ~~institutions~~}. In our discussions we shall need to consider our strategy for dealing with the groups of major debtors. The central need is for these countries themselves to take as promptly as possible measures of adjustment. Such measures are in any case ultimately unavoidable. There are no easy or painless solutions. But we can chart some directions in which ~~creditors~~ ^{the committed banks,} and international financial institutions can help, ^{helped} in which debtor countries can be ~~enabled~~ ^{helped} to ease their problems, and the problems themselves be shown to be manageable. ~~And we must give them hope that their efforts will not be undermined by high interest rates.~~

In contrast to earlier times, we are fortunate in possessing effective international institutions. Through the Summits and many other meetings we have well established means to develop a common understanding of the world's problems and to achieve the international cooperation needed to resolve them.

I suggest we should pool our ideas, and I offer you some examples:

- what can be achieved is seen, for example, in South Korea and Indonesia - two years ago on all our lists of potentially dangerous cases, but now no longer; and in Mexico - whose strenuous efforts in cooperation with the IMF and other creditors are beginning restore confidence;
- where debtors are beginning to restore confidence,

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creditors may well be willing to contemplate longer-term restructuring of debt, rather than ~~hand-to-mouth rescheduling~~;

- many debtor countries possess substantial assets of natural and industrial resources; many potential foreign investors would be interested, particularly if there were an agreed international code of investment protection, in a participating equity stake in those resources; the desire to retain domestic control is understandable, but the financial benefits of allowing such investment could greatly ease the burdens of debt - and it is worth noting that the countries which have welcomed such investment have tended to be among those developing most rapidly;
- for the longer-term, we should surely seek all ways of encouraging direct equity investment: it is healthier than short-term bank finance, it may well be more readily available than such finance in the future, and it brings undoubted advantages of management and technological expertise and world-wide trading connections;
- again for the longer-term, should we not look to the World Bank Group of institutions to play a *Supp* ~~larger~~ role, to gear their lending to performance and to act as a catalyst to attract private capital?

There is no escape from handling individual problems separately - every country is different. But we must show our joint concern and show that we have a framework for action over the years ahead which gives hope to the debtor countries of overcoming their problems and restoring confidence for the future.

The developing countries are a very widely varied group, and their economic experience in very recent years has shown remarkable differences. Some of the poorest in Africa have suffered not only recession but a sequence of years of drought. Some, particularly in Asia, have survived the recession robustly and shown a capacity to generate their own growth without running into unmanageable debt.

We need to maintain adequate flows of resources to these countries, including official and multilateral aid. ^{We} should also use our influence to encourage and give help ~~with~~ practical measures in those countries to conserve resources, to enhance their own production of food and energy, and to create conditions in which populations are more stable.

~~Perhaps the largest~~ ^{A major} task which faces us in our own economies is that of adapting our societies to an ~~unprecedented~~ ^{the} pace of ~~change~~ ^{technologies} ~~unprecedented both in terms of the quantity of new jobs which needs to be created as traditional industries have declined and in terms of the flexibility needed to take advantage of the opportunities provided by rapidly developing new technologies.~~

It is a striking comparison between our countries that progress in ~~reducing unemployment~~ ^{creating new jobs} has been more rapid in the United States and Japan than elsewhere, even allowing for the relatively early recovery in those countries. This may have lessons for the rest of us. Is there a link with the fact that those are the two countries in which the claims of public expenditure pre-empt a relatively smaller proportion of total national output? Do we need to give more scope to private industry and enterprise to promote the process of adaptation to change?

It seems that in the European countries, there is less enthusiasm for change. There is certainly a legacy of

unhelpful habits, ^{Industrial} practices and government measures and laws - many of them designed to protect employment, but now constituting obstacles to the creation of new jobs.

I hope we could explore together some of the ways in which we can promote a more rapid acceptance of change - indeed a welcome for it. How can we stimulate a livelier industrial response to technological change and new market demands? How can we remove obstacles and give positive encouragement to the mobility of labour and flexibility in its use? Many of us have adopted measures to encourage innovative small businesses; should we not also discourage those measures which prop up declining industries? We cannot afford short-term horizons.

This accent on change is another message I would like to send out strongly from the London Summit.

We need to face the challenge of change also in international trade - both to give market opportunities to developing countries to earn the means to pay their debts: and, ultimately, to strengthen the dynamic basis of our own economies.

We are accustomed to conflicts of interest in our own countries: short-term preservation of employment against new and growing opportunities for the future; protection of this or that sectoral interest against the wider conditions and opportunities of the economy as a whole. The backward-looking pressures are understandably at their strongest when economic prospects are depressed. Now that the recovery is stronger, I hope we might add to its future strength by committing ourselves to rely less on export subsidies and other assistance which distorts trade, to shelter less behind protection of trade in goods and in services, and to remove distorting ^{restrictions} ~~limitations~~ on our

capital markets. I hope we can encourage specific and practical moves in these directions.

This recognition of the need for change must be tempered by a clear indication of concern about the ways in which industrial societies deal with the national and international impact of industrial processes on the environment. As you will know from the material you already have, I have made a specific proposal for further work on this by the Versailles Working Group on Technology, Growth and Employment.

(Conclude with a suggested order of discussion).

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SECRETARY OF STATE'S BILATERALS WITH REGAN AND LAROSIERE

SECRETARY REGAN

1. THE SECRETARY OF STATE'S BILATERAL WITH TREASURY SECRETARY REGAN PROVIDED AN OPPORTUNITY TO REVIEW THE PROSPECTS FOR THE LONDON SUMMIT, DISCUSS THE INTERNATIONAL DEBT SITUATION, RECEIVE AN ORAL REPORT ON US EFFORTS TO LIBERALISE JAPANESE CAPITAL MARKETS, DISCUSS THE PROSPECTS FOR INTEREST RATES AND THE US BUDGET DEFICIT AND TO DISCUSS UNITARY TAXATION. REGAN WAS SUPPORTED BY MCNAMAR, SPRINKEL AND MULFORD.

LONDON ECONOMIC SUMMIT

2. SECRETARY REGAN SAID THAT THE ADMINISTRATION WAS BASICALLY CONTENT WITH THE DRAFT COMMUNIQUE FOR THE LONDON ECONOMIC SUMMIT, BUT THAT HE THOUGHT A FEW CHANGES WERE DESIRABLE. IN PARTICULAR, HE WOULD WISH CHANGES TO BE MADE TO THE WORDING SUGGESTED BY THE FRENCH ON THE URGENCY OF THE FOLLOW-UP TO THE G10 STUDIES ON THE OPERATION OF THE INTERNATIONAL MONETARY SYSTEM AND TO THE QUOTE NORTH-SOUTH UNQUOTE REFERENCES IN THE COMMUNIQUE IN VIEW OF THE NEED NOT TO REVIVE INTEREST IN GLOBAL NEGOTIATIONS.

INTERNATIONAL DEBT

3. IN A DISCUSSION OF INTERNATIONAL DEBT, WHICH REGAN THOUGHT WOULD BE ONE OF THE MAIN THEMES OF THE SUMMIT, HE SAID HE DID NOT BELIEVE THAT THE FORMATION OF AN ACTIVE DEBTORS' CARTEL AND THE DECLARATION OF MORATORIA WAS AN IMMINENT THREAT, ALTHOUGH HE THOUGHT IT COULD BECOME ONE IF INTEREST RATES CONTINUED TO RISE. HE BELIEVED THAT SOME DEBTOR NATIONS WERE TALKING TOUGH AT PRESENT BECAUSE THEY THOUGHT THIS WOULD LEAD TO PRESSURE BEING PUT ON THE US AT THE LONDON SUMMIT TO GIVE THEM MORE FAVOURABLE TREATMENT, AND TO BRING DOWN US INTEREST RATES. SECRETARY REGAN POINTED OUT THAT A RISE IN THE PRICE OF OIL WOULD SERIOUSLY DAMAGE THE PROSPECTS OF MOST LDCS FOR REPAYING THEIR DEBTS.

INTEREST RATES

4. ON THE PROSPECTS FOR INTEREST RATES, SECRETARY REGAN SAID THAT THE STRONG RISE IN THE US ECONOMY HAD LED THE FED - WHICH FEARED A REVIVAL OF INFLATION - TO RESTRAIN THE GROWTH OF THE MONEY SUPPLY. THIS RESTRAINT WOULD NOW BE LESS THAN IT WOULD BE OTHERWISE BECAUSE OF THE DIFFICULTIES EXPERIENCED BY THE CONTINENTAL BANK OF ILLINOIS. HE DID NOT SHARE THE FED'S INFLATIONARY FEARS. THE PROSPECTS FOR DEALING WITH THE US BUDGET DEFICIT WERE GOOD. A DEFICIT

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OF DOLLARS 170 BN WAS THE MOST EXPECTED FOR FY84. BY FY85 THE DEFICIT COULD BE AS LOW AS DOLLARS 145 BN, WHICH WOULD ONLY AMOUNT TO 3 PER CENT OF GNP. THIS WAS ASSUMING THAT THE DOWN-PAYMENT PACKAGE WOULD CLEAR THE CONGRESS, WHICH NOW SEEMED VIRTUALLY CERTAIN. OVER AND ABOVE THIS, SECRETARY REGAN CLAIMED THAT THE PRESIDENT WAS COMMITTED TO TAKING FURTHER DEFICIT-REDUCING ACTION IN THE PERIOD BEYOND THE ELECTIONS.

UNITARY TAX

5. ON UNITARY TAX, SECRETARY REGAN SAID THAT THE INTENTION WAS TO GET THE REPORT OF HIS WORKING GROUP ON UNITARY TAXATION TO THE PRESIDENT THIS WEEK AND FOR THE PRESIDENT TO PUBLISH A STATEMENT ON 1 JUNE. HE SAID THAT ANY STATES THAT REFUSED TO SIGN THE REPORT WOULD BE THREATENED WITH PREEMPTIVE FEDERAL LEGISLATION IN 1985, AND THAT COMPANIES THAT TRY TO BLOCK WATER'S EDGE LEGISLATION AT STATE LEVEL WOULD ALSO BE THREATENED WITH SUCH LEGISLATION. HE WAS ANXIOUS THAT WE SHOULD COMMENT ON THE DRAFT FLORIDA LEGISLATION THAT GOVERNOR GRAHAM OF FLORIDA WOULD SEND TO THE EMBASSY, AND IMPLIED THAT PROGRESS ON UNITARY TAX WOULD COME FIRST IN FLORIDA RATHER THAN IN CALIFORNIA WHERE REVENUE CONSTRAINTS WERE VERY TIGHT BECAUSE OF PROPOSITION 13. SECRETARY REGAN WAS AMBIGUOUS ABOUT WHETHER A PRESIDENTIAL STATEMENT WOULD CONTAIN A REFERENCE TO THE THREAT OF PREEMPTIVE FEDERAL LEGISLATION IN 1985 IF NO PROGRESS WAS MADE AT STATE LEVEL, BUT NONETHELESS SUCH A THREAT SEEMED TO BE THE ADMINISTRATION'S MAIN MEANS OF SECURING THE IMPLEMENTATION OF A SATISFACTORY SOLUTION.

JAPANESE CAPITAL MARKETS

6. THE US TREASURY TEAM WAS CLEARLY VERY PLEASED ABOUT THE OUTCOME OF THE NEGOTIATIONS WITH THE JAPANESE ON OPENING UP JAPANESE CAPITAL MARKETS, AND LOOKED FORWARD TO THE FORMATION OF AN ACTIVE EURO-YEN MARKET. (THE DETAILS OF THIS WILL BE REPORTED IN A SEPARATE TELEGRAM.)

THE MANAGING DIRECTOR OF THE IMF

7. THE MD DID NOT BELIEVE THAT DEVELOPMENTS IN THE WORLD ECONOMY WERE AS BAD AS SOME DEPICTED. SO FAR THE LDC DEBTORS HAD BENEFITED MORE FROM A RECOVERY IN THEIR EXPORTS THAN THEY HAD LOST THROUGH HIGHER INTEREST RATES. FURTHER RISES IN INTEREST RATES COULD TILT THE BALANCE AGAINST THE LDCS. HE DID NOT FAVOUR INTEREST RATE CAPPING DEVICES. THE PRIORITY SHOULD BE TO SUPPORT, IN A PRACTICAL FASHION, THOSE DEBTORS WHICH WERE UNDERTAKING SUCCESSFUL ADJUSTMENT. MEXICO WAS THE CASE IN POINT. HIS PREFERRED COURSE WAS FOR THE CREDITORS TO REPLACE THE PRESENT UNSATISFACTORY ANNUAL RESCHEDULINGS WITH MULTI-YEAR RESCHEDULINGS, COVERING PERHAPS FOUR YEARS. THIS WOULD HELP DEAL WITH THE BUNCHING OF AMORTISATIONS. BRAZIL COULD BE THE SECOND CANDIDATE FOR SUCH TREATMENT. IF THE MEXICAN AND BRAZILIAN DEBT PROBLEMS COULD BE DEALT WITH IN THIS WAY, ANY DIFFICULTIES CAUSED BY ARGENTINA COULD BE CONTAINED EVEN IF THAT COUNTRY DID NOT AGREE TO A SATISFACTORY IMF PROGRAMME.

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8. THE MANAGING DIRECTOR HOPED THAT THE ECONOMIC SUMMIT COULD ACHIEVE THREE RESULTS. FIRST, IT SHOULD SET OUT A STRATEGY FOR OPENING UP TRADE BARRIERS AS QUICKLY AS POSSIBLE, PARTICULARLY IN A WAY WHICH BENEFITED THE LDCS. SECOND, IT SHOULD ESTABLISH A STRATEGY FOR MULTI-YEAR RESCHEDULING OF DEBT SO THAT THIS APPROACH COULD ASSIST MEXICO, BEFORE THE END OF THE SUMMER. FINALLY, THE SUMMIT SHOULD GIVE THE UNITED STATES ADMINISTRATION A STRONG WARNING THAT IT SHOULD QUICKLY CORRECT ITS BUDGET DEFICIT. THE WORLD COULD NOT EXPECT THE LDCS TO PUT THEIR OWN ECONOMIES IN ORDER WHEN THE US ECONOMY WAS NOT.

9. FCO PLEASE PASS TO PS/CHANCELLOR, LITTLER AND BOTTRILL (HM TREASURY) AND TO TAIT (ERD).

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NOTE OF A BREAKFAST MEETING BETWEEN THE SECRETARY OF STATE AND MR DONALD T REGAN (SECRETARY OF THE US TREASURY) ON 29 MAY AT 7.30 A.M.

Present:

Secretary of State
HM Ambassador
Mr N L Wicks
Mr L V Appleyard
Mr H G Walsh

Secretary Regan
Deputy Secretary McNamar
Under Secretary Sprinkel
(Monetary Affairs)
Assistant Secretary Mulford
(International Affairs)
Ms Helen Walsh

London Economic Summit

1. The Secretary of State said that the United Kingdom was trying to ensure that Summit leaders had a chance actually to communicate at the Summit, and were trying to get the text of the Communiqué out of the way in advance. Secretary Regan commented that Economic Summits were becoming increasingly political and less economic. On the wording of the Communiqué, there were a couple of issues on which the Administration had comments, but he thought they could be dealt with before the Summit began. Under Secretary Sprinkel said that he had some objections to some wording suggested by the French on the urgency of the follow-up to the G10 exercise on exchange rates and also to the reference to North-South issues, which might lead to the question of global negotiations being revived again. Secretary Regan commented that the Indians in particular were favouring this revival. The Secretary of State noted that another problem for the Summit would be how to depict the prospects for the continuation of the recovery, and to ensure that this was neither too complacent nor over-gloomy.

International Debt

2. Secretary Regan said he expected international debt to be a major subject at the Summit. His own view was that he did not want the international debt problem to be handled on the basis of special measures at government-to-government level. What was primarily a private debt issue should be handled on the basis of negotiations between the banks and the debtor countries. The Secretary of State commented that he thought that the proposal for interest rate capping /was

was inherently a political question, because the question automatically arose of who should pay for it. Secretary Regan said that, if agreement between the banks and the debtor nations should include provision for interest rate capping, this would be all right by him. But no Government intervention was called for. Several cases had recently come to him (Jamaica, Dominican Republic) where an entirely political approach had been taken without regard to normal economic criteria. He did not want this approach extended.

3. Secretary Regan commented that some governments of LDCs seemed not to appreciate that their debts had been incurred by their own countries and that the loans were not forced on their countries by the banks. This meant that new governments sometimes did not want to meet the obligations of their predecessors. The Secretary of State commented that the debts were negotiated in an inflationary atmosphere, and that LDC governments only ran into trouble when the atmosphere changed. In the present situation, with rising interest rates, they now saw their best efforts to repay their debts falling shorter and shorter of their objectives. Rising interest rates might even tip them over the brink and lead them to abandon their efforts to repay their debts. Secretary Regan commented that one offset to rising interest rates was the rising American trade deficit, which has helped many foreign countries including LDCs. The US had now got a trade imbalance with virtually all major trading partners, including Canada, Japan and the European Community. In reply to a question from the Ambassador, Secretary Regan commented that the US was paying for its trade imbalance by importing capital, including \$23 bn over the last three years from the UK alone.

4. Mr Wicks commented that the Embassy had received quite a few telegrams from South American posts which indicated a revival of interest in debtor clubs and public declarations by debtor nations. In particular, the Quito Declaration seemed to have been revived in the new climate. Secretary Regan commented that he did not think that the heads of the Latin American countries wanted to form a debtors' cartel and default on their debts. He thought that they were talking tough and seeking sympathy at the moment in order to induce other countries to put pressure on the US at the London Economic Summit.

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But he thought that, if interest rates continued to rise, the present nucleus of dissatisfaction could be transformed to more active measures such as repudiation. Mr McNamar commented that President de la Madrid of Mexico wanted to have a discussion with President Reagan before the Summit about the debt issue. There had been an increase in Foreign Ministry activity in the debt field (as opposed to Finance Ministry activity) which he did not regard as a favourable development. He thought that it was relevant that debtor countries saw themselves as different from one another rather than as a bloc. Mexico, for instance, thought that it merited special treatment and Venezuela and Brazil also wanted to be treated fairly favourably, whereas the performance of Argentina and Peru had been sub-standard. Dr Sprinkel commented that the LDCs did not want to lose their credit ratings by incurring defaults. Once these ratings were lost, it would be hard for these countries to regain them. At some point, however, if interest rates continued to rise, the whole situation could obviously become politically impossible. Secretary Regan commented that a sudden sharp rise in the price of oil could also negate all the efforts of the LDCs to repay their debts. In particular, while Mexico might be helped, smaller Latin American nations could not withstand a \$35 to \$40 per barrel price of oil. The Secretary of State commented that a rise in the price of oil would help the major problem of Nigeria, but Secretary Regan said that it would not help smaller African nations.

Japanese Measures to Liberalise Capital Markets

5. Secretary Regan said that the US Treasury would that day be announcing an agreement with the Japanese on opening up Japanese capital markets. He thought that a broader Euro-Yen market was bound to add to London's development as a financial centre. It had been a long, hard haul to get a satisfactory package out of the Japanese, but Prime Minister Nakasone had helped American efforts considerably and in the end complete success had been achieved. Dr Sprinkel commented that the Director-Generals in the Japanese Finance Ministry had been particularly difficult during the negotiations, because each had his own private fiefdom of regulation which he did not want to give up. While the US had got all of what it wanted, some of the measures would be subject to phasing-in rather than being immediate. Secretary Regan

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said that, even where there was phasing, definite dates had been assigned to each phase. The Secretary of State asked about the continuation of banking regulations in Japan. Secretary Regan said that there would still be regulation, but that foreign banks would be put on an equal footing with domestic banks. In fact, under the new arrangements, foreign banks would be allowed also to engage in the trust business whereas this would be prohibited for domestic banks. Mr Mulford commented that the agreement was in such terms that it would be difficult for the Japanese to go back on it at a later stage. Dr Sprinkel agreed that it was in very specific terms so that he did not think that the Japanese would renege on the agreement. Secretary Regan said that one of the major provisions that had surprised him was that the Japanese monopoly on underwriting security issues had been abolished. The Secretary of State said that he would look with interest at what the Japanese had agreed, and would examine the fine print very carefully. Dr Sprinkel said that his ad hoc group would monitor the agreement very carefully, and that reviews were set for the next autumn and the following spring.

Interest Rates

6. Secretary Regan commented that the future course of interest rates was hard to predict and that the turbulence caused by the Continental Bank of Illinois and the stronger than expected recovery were two factors in the equation. The strong recovery might have led the Fed to tighten even more but for the need to supply liquidity in a banking crisis. He thought the trouble with Fed policy was that it tried to decelerate growth in the money supply too quickly whenever it over-shot, and the recent reduction in the growth of M1 to 2% had led to a good chance of a recession. He had commented unfavourably in public about this. It should be the aim of the Fed to have a more gradual deceleration. Chairman Volcker was obviously worried about the possibility of the rekindling of inflation, but he did not share this fear. He mentioned that there were good productivity growth figures for the first quarter of 1984 of 4.1% at an annual rate, and only 2.4% for unit labour costs. Dr Sprinkel commented that real interest rates /were

were high all over the world. He thought the explanation was that the present low rate of inflation had been in existence for so short a time that expectations had not yet adjusted.

US Budget Deficits

7. Secretary Regan said that action was being taken to reduce the US budget deficit. The passage of the down-payment package was all but assured when the House/Senate conference took place in the first week of June. Enactment of the complete package could take place by mid-July. The Administration had forecast that for FY84 the Federal budget deficit would be \$170 bn, but the recovery was stronger than expected and the Pentagon was running \$5-8 bn behind its planned rate of spending, so that the end result could be lower. In FY85, he thought that the deficit would be down to 3% of a \$4 trillion GNP, or about \$145 bn.

8. Secretary Regan said that the President was moreover firmly committed to a further series of deficit-cutting measures after the elections, despite the fact that he, as Treasury Secretary, had got his knuckles wrapped whenever he referred publicly to this. There was a need to reform Social Security and Medicare and to revise the US tax system to make it simpler and fairer. This would be done by broadening the base of the tax system so as to facilitate lower tax rates. The Secretary of State suggested that the US should not ignore the possibility of further taxes on expenditure. Secretary Regan said that he was considering the possibility of a VAT because the reform of income and corporation tax would be difficult mainly because of the difficulty of reducing allowances etc when they were already an inherent part of taxpayers' plans and activities. This would give rise to the need for complicated transitional measures. The Secretary of State referred to the Chancellor of the Exchequer's efforts to reduce corporation tax rates in stages while reducing capital allowances in parallel. He said that a Value Added Tax was very complicated and that the UK might have looked for a less complicated tax on expenditure if it had not been for the need to harmonise with the tax systems of the European Community. Secretary Regan commented that the Federal Administration was precluded to some extent from introducing a simple sales tax at Federal level because this would intrude on the taxation territory of the individual States.

/Unitary

Unitary Tax

9. Secretary Regan said that it was his intention to get the final report of his Working Group on Unitary Taxation to the President this week, with as many as possible of the members having signed it. It now appeared that the companies would go along, but several States had been holding up its submission. But if all went well, the President would publish a statement on 1 June. He wanted to emphasize that the report would deal with the problems of foreign parent multinationals, and that the non-resolution of the dividend problem only affected US domestic companies. These companies did not wish to be subject to double taxation at State level, and US oil companies wanted to be taxed as "80/20" companies and not on their worldwide profits. He had told the States that if they did not sign the Working Group's report, then he would deal with the problem by Federal preemptive legislation in 1985.

10. In reply to a question from Mr Wicks, Secretary Regan said that it was his firm intention to recommend a Presidential statement before the June Economic Summit. In reply to a question from Mr Walsh about the possible attempts of US companies to block legislation at State level and thus frustrate a water's edge solution even for foreign parent multinationals, Secretary Regan said that if they did that he would threaten the companies with Federal preemptive legislation in 1985. When he was asked about the situation in California, Secretary Regan said that Governor Deukmejian had a special difficulty with Proposition 13, which constrained the flow of revenue into the State's coffers. There was therefore a limit to what he could concede on loss of revenue in legislating on unitary taxation. Governor Graham of Florida would be consulting the UK to get our comments on the proposed legislation in Florida.

11. The breakfast ended at 8.25 a.m.

U W

H G Walsh

29 May 1984
British Embassy
Washington

/Distribution

Distribution:

FCO

PS/Secretary of State

Mr J C Thomas, ERD

Mr N H Marshall, NAD

HM Treasury

✓ PS/Chancellor of the Exchequer

Mr J G Littler

Mr A R H Bottrill

Inland Revenue

Mr I R Spence, Policy Division

Embassy

HMA

Minister

Minister (E)

Minister (C)

H of C

Mr Harris

Mr Walsh

Mr Exeter

Economic Registry

C
Just work it?
Dw

FROM: M TOWERS
DATE: 29 MAY 1984

[Handwritten signature]

MR LITTLER

cc PPS ←
Mr Culpin
Mr Monaghan
Mr Page
Daily Folder
PO File: London Economic
Summit 1984 (Admin.)

LONDON ECONOMIC SUMMIT: NIHON KEIZAI SHIMBUN

... We have just received the attached letter and questions which NKS requests the Chancellor might answer before the Summit.

2. You may recall that the Chancellor decided not to give interviews on the Summit other than to the Financial Times and (if necessary) Reuters. On this basis we turned down, with the Chancellor's approval, an earlier request from NKS for an interview.

3. However, what NKS are here proposing would be much less time-consuming for the Chancellor than an interview, and could serve as a useful vehicle for conveying, inter alia, the UK's views on Japanese policies to the Japanese equivalent of the Financial Times.

4. If you agree, could your Divisions very kindly supply draft answers for the Chancellor to approve by say, lunchtime, Friday, 1st June?

[Handwritten signature: MWN Towers]

M W N TOWERS

ps. You may wish to take into account the fact that on 4 June Sir Geoffrey Howe will be giving a group interview for the six leading newspapers from each of the other Summit countries. The Japanese newspaper on that occasion will be the Asahi Shimbun.

[Handwritten note in red ink: OK - per ask Mr Culpin to let me know if any answers. M.]

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日本經濟新聞
The Nihon Keizai Shimbun
(JAPAN ECONOMIC JOURNAL)

ESTABLISHED 1876
c/o The Financial Times
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London, EC4P, 4BY

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Telex No.
J22308 NIKKEI

23 May 1984

Mr. Towers,
Press Office,
H.M. Treasury,
Parliament Street,
London SW1P 3AG

Dear Mr. Towers,

In response to your suggestion, we have prepared the enclosed questionnaire in lieu of an interview with the Chancellor, the Rt. Hon. Nigel Lawson. We would appreciate it very much if we could receive written answers from the Chancellor before the Economic Summit takes place.

Thank you very much for your kind cooperation. We shall look forward to hearing from you.

Yours sincerely,



Mitsuo Murase
European Editor

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Rt.Hon Nigel Lawson,
Chancellor of the Exchequer

Questionnaire

1. The high interest rates of the US again threaten the world economy. At this London Economic Summit what kind of attitude will your Government take towards the high levels of the US budget deficit, US interest rates and US dollar?
2. In preparation for this Summit, there has been talk of the possibility of the industrialised countries setting up some special organisation to treat the growing debt problem of the developing countries. Could you give details of this idea? What sort of action may be taken by the industrialised countries?
3. It is very important for the advanced countries to support and to give aid to the developing countries. However, most of the advanced countries at present have large budget deficits. How can the advanced countries maintain their support for the developing countries by giving aid, in view of this problem?
4. Both the British and the US Governments have asked the Japanese Government to open up the Japanese financial markets. While the request of the US Government is concrete and detailed, the request of the British Government remains unclear to Japan. Could you explain what kind of expectations the British Government has of the measures that the Japanese Government should take in this respect?
5. In order to alleviate the turmoil of the exchange markets, there is an argument in favour of revising the existing floating rate system and establishing the so-called "target zone" system. What do you think of this idea?

* * * *


myo
FROM: J.G.LITTLER
DATE: 29 MAY, 1984

R. TOWERS

cc. PPS ✓
Mr. Culpin
Mr. Bottrill
Mr. Monaghan
Mr. Page

LONDON ECONOMIC SUMMIT: BRIEFINGS FOR JOURNALISTS

I think that the further briefing you suggest that I might undertake this week would be overdoing it. I have already at your suggestion given a briefing just before the OECD meetings, to representatives of the Financial Times, Times, Guardian and Telegraph. There is nothing new for me to say at this stage. I think we should rest for the remainder of this week on the interview the Chancellor is giving to the FT and on the general briefing by the Prime Minister.


(J. G. LITTLER)

THIS IS OUR
READING OF THE
OECD'S MINISTERIAL¹⁽⁷⁾
COUNCIL.

29/5/84.

TUAC

Evaluation of the communiqué of the OECD Ministerial Council, 17 - 18 May, 1984

1. The communiqué of the OECD Ministerial Council is significant in that it signals the consolidation of an economic policy framework for many years to come. Monetary policy will remain tight to fight inflation, government expenditure will be reduced irrespective of the level of budget deficits, and any growth is to be achieved through a better functioning of the market mechanism. But the communiqué is also significant for the complete absence of an agreed assessment of the state of the world economy, and an almost total inability to take any coordinated initiatives to solve current economic problems.
2. Just before the Ministerial Council, the OECD announced an upward revision of its forecast growth rate, from $3\frac{1}{2}$ % to 4 % for the OECD area as a whole in 1984. However, what should have been general applause and endorsement for the leading role that the US economy was playing in the recovery, turned instead into general criticism of US economic policy, particularly the way US government budget deficits were pushing up interest rates worldwide and making debt repayments more difficult. The communiqué displays no recognition of the fragility of economic recovery and no concern that economic growth is forecast to slow down in the years ahead. It is particularly worrying that the inability of governments to cooperate with each other on macro-economic policies to achieve economic growth and employment growth has reduced the OECD to bland statements on improving micro-economic performance of the OECD economies.
3. The communiqué's shift of emphasis onto the longer term indicates that the OECD countries cannot agree on what to do in the short term. Unlike in 1983, there is no talk of countries using their "room for growth" in a coordinated way. Unlike in 1982, there is no attempt to promote "differentiated growth" whereby a number of countries would lead the recovery. Importantly, there is no proposal for a concerted action programme like in 1978 when, as now, the growth achieved after the rebound from the first oil price rise was due to slow down. No initiatives were proposed by the OECD for this year's Ministerial Council to achieve a higher growth path. Indeed, initiatives are specifically excluded on the grounds that "in the early stages of past recoveries monetary growth had often been unwisely stimulative", and so Ministers "resolved to avoid this" (paragraph 8). Concentrating on longer term policies allowed countries to ignore their differences. Whether these differences on the immediate situation will enable governments to stick to their longer term strategy, or whether they will, in fact, be forced off course by events, should only

become apparent after some time. If the OECD strategy is achieved, Ministers will have succeeded in producing sustained, non-inflationary, high unemployment stagnation.

Macro-economic framework

4. In spite of Ministers' concern with the recent rise in interest rates, they agreed that monetary policy should remain tight in order to achieve lower inflation (paragraphs 7 and 8). This overriding concern with inflation means that credit will remain expensive and limited. Money supply will be set so that it can accommodate "real growth" only, but not "nominal growth" due to inflation, nor "quasi-growth" due to government budget deficits. Thus, the communiqué can be seen as an endorsement of the US Federal Reserve policy.

5. Fiscal policy will continue to concentrate on reducing government budget deficits and, where these have been achieved, to reduce taxation (paragraph 9). Although the emphasis is on reducing government expenditures, there is an indication that where these cannot be sufficiently reduced, taxes should be raised. This seems to be a reference to the current debate in the United States. The communiqué (paragraph 10) also urges governments to review their public expenditures in order to control their overall growth as a proportion of national output, and to make them more appropriate and flexible. Reference is made to public investments and to helping those in need, but the whole thrust is to reduce the role of government in the economy.

6. The mix of monetary and fiscal policies in different parts of the OECD area is such that each country has an excuse for not taking action. In many European countries, government budget deficits have already been significantly reduced, yet they remain restrictive with the excuse that US policy is reducing their room for manoeuvre. But the communiqué does not address this issue of interdependence, other than to call for a convergence of countries' economic policies. An example of this is the reference to exchange rates (paragraph 11), which offers no solution to the wide currency fluctuations other than that governments should "pursue monetary and fiscal policies that are sound and sustainable in themselves and which promote convergence in economic policies". This continues the position of the Williamsburg Summit last year. Immediately after the Ministerial Council, the Group of Ten countries failed to take any initiatives on exchange rates. This will further delay the convening of a new Bretton-Woods conference, which has been urged by some countries, until the floating exchange rate system is de facto more stable due to countries' economic policies becoming more similar. In the meantime, nothing is being done to reduce the exchange rate chaos.

7. The theme of the communiqué is that growth will come, and unemployment will fall, only if market forces are allowed to operate. The Ministers' agreement to do nothing to reduce unemployment and spread growth by monetary and fiscal policies has meant that all the emphasis is on achieving a better functioning of markets, especially the labour market. This is summed up in the jargon "Positive Adjustment Policies" (paragraph 13 and Annex) and "labour market flexibility" (paragraph 14). These policies cannot be seen as immediate solutions to current problems because their attainment is put firmly into the medium and long term (paragraph 15). The role of governments is to supervise the functioning of markets in order to remove regulations, obstacles and impediments. The communiqué makes no attempt to see how markets can function better in a social context. This implies that governments are less than sincere when they say (paragraph 6) that fairness should be a consideration in the process of structural change.

8. The OECD's work on Positive Adjustment Policies has been going on for many years, and Ministers regularly endorse this work. In the name of flexible economic structures it advocates less government intervention. Industrial policy should consist of giving a greater role to market forces. Like declarations in favour of free trade, there is a degree of complicity that Positive Adjustment Policies are not always adhered to.

9. Unemployment was not a major concern of the Ministerial Council. No policies were adopted to bring it down quickly. Instead, Ministers believe that unemployment will slowly be tackled by ensuring that, as growth proceeds, labour markets are flexible, wage differentials widen and wages will not increase. Unemployment is considered to be a measure of the rigidity of the market mechanism: if unemployment is low then the market forces have been allowed to operate; if unemployment is high then there must exist obstacles to the smooth functioning of the market, which should be removed. Although the communiqué (paragraph 14) does say that labour market policies should "help workers and affected communities to adjust", the emphasis is on achieving a collective bargaining outcome which reduces wages in sectors and skills where unemployment is high. The communiqué also says that, "where appropriate, specific action to influence the development of incomes may also play a positive role in mastering inflation and fostering employment". This could mean anything from an incomes policy, to de-indexation, to abolition of labour protection legislation such as the minimum wage. The Ministers are aware that such sensitive issues require consultation with the employers and trade unions, and so have asked the OECD to work in close contact with BIAC and TUAC. It would appear difficult, however, to restrict discussion to these matters when governments seem unable to take initiatives on other macro-economic issues.

Developing countries (paragraphs 16 - 25)

10. International economic interdependence was discussed solely in the context of relations between the OECD area and developing countries. Underlying Ministers' concern with the ability of debtor countries to manage their debt burden is the realisation that:

- (i) The debt problem will be a recurrent feature for many years as rescheduled debts become due;
- (ii) The debt problem restricts the room for manoeuvre of OECD (and especially U.S.) domestic monetary policy because the debt burden is sensitive to interest rate movements; and
- (iii) The amount of public money available to underpin International Monetary Fund conditionality (which imposes the adjustment policies required before banks will renegotiate debts) is insufficient to avoid the adjustment from being unduly harsh and disruptive.

11. The communiqué indicates that Ministers are prepared to take a longer term view of the debt problem. It takes a step towards the construction of a framework within which individual, case by case debt solutions can be discussed. This framework implies the "promise" that extra private and public resource flows may be forthcoming from OECD countries if the developing countries adopt more market orientated policies. The "trickle down" of growth approach to development and debt problems, which was a feature of last year's Ministerial Council and the Williamsburg Summit, is still valid and is now put into the longer term context of those policies which are good enough for the OECD are also good enough for the developing countries. However, achieving these policy adjustments will take more time than IMF austerity programmes imply, and will require maintained, and if possible increased resource flows to the developing countries. It is uncertain whether merely applying OECD economic principles to developing countries is an adequate or workable development strategy, whether it will be acceptable to developing countries, and whether it will be aborted in the short term by events such as interest rate increases.

12. The communiqué (paragraph 20) reviews the relationship between the IMF and the World Bank, and suggests that greater cooperation between the short term economic adjustment function of the IMF and the longer term development function of the World Bank would help achieve these goals. At present, the World Bank is mainly involved in financing specific projects. The communiqué implies that in future it will be involved in financing overall structural adjustment so that the economies of developing countries become more tailored to world market requirements and to private enterprise. This could mean a greater private sector influence on the World Bank if the role of government as the engine of development is proscribed.

13. Existing resources to enable the World Bank to become the de facto "structural adjustment facility" of the IMF may not be adequate. This was not specifically addressed in the communiqué. However, the communiqué does say that "these institutions must have adequate support" (paragraph 21) and that replenishment of the World Bank's International Development Association funds "is a high priority". A step towards this was achieved immediately after the Ministerial Council meeting when the United States unblocked Japan's attempt to become the second largest contributor to the IDA, which the U.S. had insisted be conditional upon liberalisation of Japan's financial markets.

14. The Ministers stressed the need for greater policy coordination to increase the effectiveness of aid (paragraph 21). They also emphasised the advantages of increasing direct foreign investment by multinational enterprises in developing countries, and asked the OECD to identify "the main policies and conditions in host and investor countries most conducive to promoting direct investment" (paragraph 23). However, the concrete negotiations to achieve these conditions for direct foreign investment will remain on a bilateral basis. The OECD has been emphasising that resource flows to developing countries should have a greater proportion of direct investment and a smaller proportion of bank loans. The role of direct investment flows, and the OECD principles under which this should take place, were underlined in Chapter 5 of the 1984 Review of the OECD Declaration on International Investment and Multinational Enterprises, which was adopted by the Ministerial Council (paragraph 35). The TUAC submission stressed that direct investment to developing countries should follow the ILO Declaration, but this was not mentioned in the communiqué.

15. The communiqué (paragraph 24) emphasised that open trade was an essential part of the development strategy, and that this would require structural change in the OECD and developing countries in order to accommodate new entrants into the world trading system. No agreement was achieved on the practice of mixing aid and trade credits, which is perceived as a trade distortion. The text of paragraph 22 is a compromise, and further work will be done on this issue (paragraph 29). An early test of the OECD's approach will occur at the forthcoming UNIDO IV conference. The Ministers (paragraph 25) pledged themselves to make a positive contribution to this conference: but last year they pledged the same regarding the UNCTAD conference which produced little result.

International trade (paragraphs 28 - 34)

16. A major feature of the attempts to promote the operations of markets is the so-called "roll-back" of those protectionist measures which were erected during the recessionary years, and to further liberalise world trade. This involves both trade restrictions at the frontiers, and trade distorting measures (e.g. subsidies) in domestic economies. Since this initiative was launched last year little progress towards liberalisation has been achieved. On the contrary, as trade imbalances grow, unemployment levels increase and insecurity of future incomes are augmented, there has been further protectionism. It is probable that governments are waiting to see firmer signs of recovery before reducing barriers to any meaningful extent. Nevertheless, Ministers reaffirmed that free trade is an essential element in the argument for flexible economic structures: in terms both of the means of achieving flexible markets, and of the need for flexible responses to trade pressures.

17. The Ministerial Council agreed to accelerate to 1985 the tariff cuts due for 1986 under the Tokyo Round, and to remove all remaining barriers to entry of imports from the least developed countries (paragraph 28). These measures are probably more of symbolic importance than having a dramatic impact on trade volumes. Nevertheless, they will require legislation in most countries. The communiqué makes no attempt to establish, as the TUAC called for in its Statement, anticipatory measures to assist workers and communities to cope with trade adjustment.

18. The communiqué gives the OECD an extensive work programme to study practical opportunities for further trade liberalisation. A sector by sector identification will be made, and this is mentioned in the same subparagraph as identification of possibilities for "concerted action" and expanded imports from developing countries (paragraph 29 i). It will be necessary to follow closely what is meant by concerted action. Further efforts will be made to reach international agreement on safeguards against disruptive imports, since the GATT mechanism has largely been discredited by bilateral "voluntary" agreements (paragraph 29 iv). Ministers called for improved information disclosure of governments' domestic measures which distort trade, and for evidence of their removal as part of each countries' economic adjustment. This information includes subsidies and industrial policies.

19. There has been a lot of talk of a new trade liberalisation round after the Tokyo Round has been implemented and the Ministerial Council has encouraged this process by calling for a number of studies (paragraph 30). Areas identified are services (paragraph 31), high technology products (paragraph 32), and agriculture and fisheries (paragraph 33).

20. Paragraph 34 acknowledges a report on trade and competition policy that was initiated at last year's Ministerial Council. TUAC was consulted on this report, which, amongst other things, drew attention to the ambiguous competitive relationship of multinational enterprises' subsidiaries. This was not referred to in the communiqué; instead, it mentions export cartels and voluntary export restraints which are frequently government endorsed. Ministers continued to stress the advantages to consumers of free trade, without talking about the disadvantages. There will be an OECD conference on Consumer Policy and International Trade in November, 1984, in which TUAC will participate.

. International Investment (paragraphs 35 - 37)

21. These paragraphs are the culmination of the 1984 Review of the 1976 Declaration on International Investment and Multinational Enterprises. Insofar as the Ministers have set priorities for the next six years, until the next review, the thrust is towards greater liberalisation and freedom of action for multinational enterprises, and less concern with obligations on multinational enterprises. By singling out (paragraph 37) the application of the National Treatment instrument, governments have effectively shown their lack of concern with the non-implementation of the Declaration's other two instruments, particularly of the Guidelines which is a voluntary code addressed to multinational enterprises. This confirms that the already weak implementation of the Guidelines has been further eroded, and that the balance of implementation between the instruments has been lost. Although paragraph 36 refers to conflicting requirements on multinational enterprises arising from the extraterritorial application of national jurisdiction, and to unitary taxation, the differences between countries have not yet been resolved.

29.05.84/SMcC

Attached: Press articles.

29, 1984, and the Treasury Department welcomes further issues of Japanese government guaranteed bonds in the U.S. capital market.

3. Reduction of the U.S. budget deficit.

The Treasury Department reaffirmed the U.S. commitment to reducing its budget deficit, primarily by cutting government spending. At President Reagan's initiative, efforts to develop a deficit reduction plan that would represent a "downpayment" on the deficit have produced encouraging results. Recent Congressional action has significantly enhanced the prospects that legislation will be passed this year that will have the effect of substantially reducing the U.S. budget deficit.

The U.S. Administration will continue to explore other alternatives that would reduce the deficit. In this connection, it has proposed some longer-term measures to address the problem, including a balanced budget amendment and line-item veto authority for the President.

4. Eighth quota increase of the IMF.

(See Section IV.C.)

5. Seventh replenishment of the International Development Association (IDA VII).

(See Section IV.C.)

29/5/84

PRIME MINISTER'S MEETING WITH AN INTERNATIONAL TRADE UNION
DELEGATION, THURSDAY, 31 MAY

LONDON ECONOMIC SUMMIT

Points to Make

1. Noted twin objectives of TUAC paper, creating jobs and achieving acceptable technological and structural change. Agree on desirability of creating permanent, real jobs and on importance of adapting to technological change in both new and existing industries. But do not necessarily agree with methods of achieving those objectives.

2. Useful to have TUAC's expression of views in advance of the Summit. As hosts welcome contribution these views make to work of preparing Summit. Economic Summits do not set detailed policies for individual countries to pursue. Aim is to achieve better understanding of world economy and work towards common objectives and policies. Policies in individual countries must take account of international effects while national government retain responsibility for their own economic policy.

3. Main objective for Summit will be to agree need to sustain recovery and spread benefits to the rest of the world, as identified by TUAC paper. Recognise trade as important transmission mechanism for growth. Summit will be seeking credible commitment on resisting protectionism.

4. Summit will be examining debt problems of developing countries particularly in medium term context. Agree that lower interest rates and greater exchange rate stability desirable, not only for debtor countries. Have made our views known to the Americans on importance of their economy in this respect. But the key is adjustment by debtor countries. Support the role of the IMF. Work on international monetary system, as suggested at Williamsburg, continues in G10.

. An underlying theme of Summit will be need for structural change to allow economy to grow. This process can be self-reinforcing by using results of growth for productive investment to generate employment. Public acceptance of new technology important in realising it is beneficial for job creation.

6. Note that TUAC document also submitted to OECD Ministerial Meeting. Communiqué of the meeting reflected some of TUAC concerns notably need to make inroads into unemployment.

Background

7. Every year the Trade Union Advisory Committee to the OECD (TUAC) prepares a paper for presentation to the OECD Ministerial Meeting and the annual 7-power Economic Summit. The text of the paper is at Annex A. The Prime Minister need read only the Summary. It is traditional for an international trade union delegation to call on the Summit host in the long run up to the Summit itself to present this paper. The delegation will consist of representatives from the US, Germany, Japan, Italy and France led by Mr David Basnett, Chairman of the TUAC.

8. Mr Lea, Assistant General Secretary of the TUC called on Sir Robert Armstrong on 31 May to discuss the meeting with the Prime Minister. He said that the TUC hoped it would be possible to present the meeting with the Prime Minister as useful, both to the press immediately afterwards and in the report that would be made to the TUC's Economic Committee in June. Sir Robert Armstrong's minute of 22 May to Mr Coles (Annex B) describes the importance of a positive outcome to the meeting.

9. Mr Lea said he hoped the meeting with the Prime Minister might concentrate on the elements in the TUAC paper with which we could agree, particularly the 2 main themes (of creating jobs and achieving technological and structural change in a positive way) and the need to ensure that everyone shared in the benefits of recovery. He hoped the Prime Minister would be able to commend the TUAC document to her Summit colleagues as a constructive contribution to their debate even though she did not agree with it entirely. Mr Lea identified two areas which it might not be profitable to discuss in detail, namely:

a) the view that recovery might be helped by a reduction in real wages associated with a weakening of trade unionism.

b) the trade unions' view that high employment could not be restored without a reduction in working hours, which the unions did not see as being a barrier to increase competitiveness.

Lea said he hoped the Prime Minister would be able to say something helpful about the need to explain new technology to those affected by it and to bring about their involvement in and agreement to its introduction.

10. The approach of the TUAC document is both different from and more detailed than that outlined in the thematic paper for the London Economic Summit (text at Annex C). The OECD Ministerial did not endorse the thrust of the TUAC's strategy. While the TUAC document agrees that inflation should not be rekindled, it does not say how the measures which it proposes should be introduced would be paid for. It sees a greater role for governments in such fields as infrastructure, investment, negotiating structural change and flows of finance for developing countries. The paper argues unconvincingly that its proposals, particularly higher government capital expenditure, are in part self-financing. But it does not explain how the cost of extra public expenditure would be funded nor the inflationary dangers avoided. The document's judgement that present policies have not been successful seems premature. Prospects generally seem better in the countries which have had most success in reducing inflation.

11. Nevertheless there are certain resonances between the TUAC document and the thematic paper.

a) both documents recognise the need for soundly based economic growth;

b) both stress the need to spread the benefits of growth more widely;

c) both accept the need to avoid rekindling inflation (the TUAC rather obliquely - eg the first sentence of para 7);

d) both favour growth in world trade (although the TUAC link this to growth and 'the expansion of domestic markets');

e) both want lower interest rates and greater stability in exchange markets;

f) both want to help debtor countries but differ on methods.

12. EUROPEAN TRADE UNION CONFEDERATION: The UK was almost alone among Western European countries in not being represented at an employment conference organised by the ETUC in Strasbourg in April. We felt there was little to be gained in hearing familiar arguments rehearsed in an unsympathetic forum, particularly as in February a Department of Employment Minister (Mr Gummer) met overseas colleagues to consider problems of employment growth at a time of structural change at a high-level conference organised by the OECD. Mr Basnett, as Chairman of the TUAC, also attended.

FOREIGN AND COMMONWEALTH OFFICE

29 May 1984