

Opening the meeting, Chancellor Schmidt welcomed the Summit participants to what had been the Cabinet Room for 30 years. He said that the Summit had already been given substantial coverage by the media. The participants could not afford to raise hopes only to disappoint them. By analogy with the Seven Hills on the other side of the Rhine, each participant could no doubt perform a brilliant feat of summitry individually. But this Summit would be hard to climb alone. What would be more fitting than to tie all their hopes together as a climbing party was roped together. The participants could not simply be satisfied by the privilege of taking part. A critical public was watching. Success or failure would affect everyone in the world.

After the Downing Street Summit, the international press reaction had been somewhat sceptical. He did not at the time believe that this had been justified, and this was still his view.

The value of Summits lay in the opportunity for a direct exchange of views. All seven countries had acted in the spirit of the tasks set by Downing Street. The Federal Republic of Germany for its part had subsequently introduced a stimulus by way of tax reliefs worth 1 per cent of GDP. The Summiters had not solved the world's economic problems because they were faced by drastic structural problems. But they should not overlook the fact that progress had been achieved, and a deterioration avoided in a number of areas since Downing Street: many countries, especially in Europe, had improved their current account balance; inflation rates had in general been reduced (7 percent for OECD in 1978 as against 8 per cent for 1977); the US had been especially successful in the fight against unemployment;

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considerable progress had been made in the Multilateral Trade Negotiations. High hopes were placed in this Summit - too high, but this was a factor which must be taken into account. Failure would have profound negative psychological effects. They should work out a package deal that would show the world that they could meet the challenge. Beating unemployment required not just a monetary injection, but action on protectionism, stabilising the domestic and the international value of currencies, energy conservation, etc.

Chancellor Schmidt proposed that the Summit begin with a general discussion of all the inter-related subjects since the problems in particular fields stemmed from the interdependence of the problems and of their countries. He suggested that they focus for the remainder of the morning session on macro-economic matters - growth, unemployment, inflation. In the afternoon they would move on to international monetary relations and the international aspects of energy policy. On Monday he proposed that they start with trade, including the MTNs, protectionism and adjustment policies before moving on to relations with developing countries. He hoped they could look at the joint declaration, which would have been refined by the personal representatives in the meantime, by noon on that day. As at the last Summit, delegations should be represented by three at a time, with the Prime Ministers and Foreign Secretaries present throughout, and either Finance Ministers or Ministers of Trade or Commerce or Energy filling the third seat.

/Chancellor Schmidt

Chancellor Schmidt then referred to the statement of free trade unions, which had been given to him by a delegation and which he tabled before the meeting. He commented, off the record, that the statement was remarkable in that it demonstrated that trade unions did not themselves have a patent recipe to cure the recession.

The delegations signified agreements with the proposed agenda order.

As regards the drafting of the declaration, President Giscard commented that long discussions of the text at previous meetings had created the impression that participants found it difficult to agree. It would be better on this occasion if the text was agreed as they went along. Those present should aim to agree by the end of today the text covering what they discussed in the course of the day.

Chancellor Schmidt said that this could be their aim. But it would be important that nothing became public until the very end. This was agreed.

Opening the general discussion, the Prime Minister said that the fact that the seven Heads of Governments of countries accounting for 50 per cent of world trade were meeting was of importance of itself. The results of the Summit would be important to trade unionists, investors and the money markets. There was a great responsibility on those present, particularly given the many tensions with which they had to cope. He himself felt the tension of protectionism which was borne in on him by

/trade unions

trade unions and by businessmen. A protectionist atmosphere was growing. But he was sure that it had been kept at bay because of the Downing Street Summit and earlier Summits. The root of protectionism lay in pessimism; and pessimism was one of the causes of the failure to generate growth which would employ their material resources and manpower. The results of the Summit would be, and were certainly thought to be, of significance. Perhaps they had made a mistake at Downing Street in making general statements. This would not be enough this time. Their declaration would carry more conviction from individual commitments in the pieces in square brackets left in the draft declaration.

Continuing, the Prime Minister said that the work of the "Sherpas" had been important in getting agreement of the package approach. Each of those present was called upon to reach individual decisions which might not be wholly welcomed domestically but which would be of value to the world as a whole. They might reach conclusions collectively that they would not have reached individually. The total impact of individual contributions would be greater than the sum of the individual parts. Speaking for himself, the Summit had also encouraged him to focus on the vital problems that they faced.

/President Carter

President Carter agreed with the Prime Minister that their meeting was important in itself. He had shaken hands with Herr Schmidt on Thursday - and Wall Street had risen 15 points! He understood the importance of individual actions. The United States had tried assiduously to fulfil the commitments made in London. Growth last year had been 5.7 per cent; 6.4 million jobs had been created. The growth rate may slacken but he hoped that unemployment would continue to fall. Energy imports had increased by only 1 per cent in 1977 and oil imports had been reduced by 1 million barrels per day in the first four months of 1978. Of the five major energy proposals which he had put to Congress, the Conference Committee had agreed four, three of which would become law very shortly. One, relating to natural gas, would have a difficult passage through the Senate, but he was confident that it would become law. The sum total of these would be a reduction of oil imports of 2 or 3 million barrels per day by 1985.

He would continue to pursue the goal of raising the price of oil in the US to the world price by 1980. He was double checking back home, but he believed that this could be put in the declaration. As regards the budget, the deficit of \$60 billion in 1976 had come down to \$50 billion in 1977 and would be some \$40 billion in 1978 and, he hoped, about \$30 billion by 1980. The deficit was a small proportion of GNP, but he was striving for a balanced budget by stringently limiting spending. On the balance of trade, the higher growth rate in the US compared with its trading partners meant that the US was able to buy more from its partners than they could buy from it. For the future, growth rates were coming more into line. The decline of the dollar had been regrettable but was a correcting factor.

President Carter said that the declaration could provide a tone of general purpose and the specific commitments which would encourage the world as a whole. The Summit had certainly had an impact on the Administration, which knew a lot more about the problems of other countries than it would otherwise have done. Moreover Congressional leaders were now taking a greater interest in attitudes abroad. There was a widespread interest in the US

for a successful Summit, as well as a desire to learn from other countries. The fact that they were meeting would have some impact, but the impact really depended on what results emerged. The MTNs were very important to the US. The Summit should welcome the progress made and encourage this to be continued. He was under tremendous pressures from manufacturers and from labour unions. To the extent that if he could demonstrate success in the MTNs, he could put an obstacle in the path of these pressures.

President Giscard said that they must be frank when analysing the economic situation. Comments about countries should not be interpreted as offered in any aggressive or offensive spirit. The analysis of problems would remain amongst themselves. He saw the problem as one of unemployment, which was a social and political problem. Indeed, more difficult social and political problems underlay economic problems. He found the fact that compared to other economic systems, the fact that the West carried so high a burden of unemployment especially youth unemployment, was a real handicap.

There was a de facto solidarity among the economies of those present, but also with other economies not represented especially those of developing countries including the oil producing developing countries. The Summit should not just pay lip service to relations with developing countries, they were all closely inter-dependent. Analysing the causes of the present economic crisis, President Giscard said that in the 1960s and the early 1970s, Governments had been satisfied with the growth achieved. There was then a slow down - then disequilibrium caused by the oil price increase. This in turn affected trade, which in turn disturbed monetary equilibrium. The first ripples of the oil crisis hit the West in 1974 and 1975. Thanks to the wisdom of the oil producers the price freeze of 1977 and 1978 had given them a breathing space. But this period was now ending. They were entering a period of substantial increases in oil prices. There were some oil producers represented at the Summit. But others would be in considerable difficulties by 1981/2 if there were further steep increases in oil prices. This explained the importance attached to the energy problem and to measures by the US to cut oil imports. Further oil price increases would

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make the position of importing countries impossible. They would have to tighten their belts again, cut back on imports and substantially increase exports. He believed the period up to 1982 would be very dangerous.

As regards growth, they should all do what they could. But timing was very important. They all knew that there was a 6-9 months lead time before measures took effect. If they wished to affect 1979 they could not wait to take action until early 1979. They must start now. They should therefore focus on the need to start taking action in the late summer or early autumn.

Mr. Fukuda said that the world was in a very unstable condition, which he called the age of uncertainty. The future was rather opaque. Minds were insecure all over the world. There was a loss of confidence due to social and economic problems. East/West and North/South relations were uncertain. He was concerned about the effect of the depletion of oil in 30 year's time. Would we see another oil and energy crisis? There were immediate problems of growth, inflation, trade, etc., but perhaps they should look beyond these and try and have a clearer vision of the future. This was easier said than done. But they could not remain with their arms folded. At the next Summit they must be well prepared to talk about the long range future. In this context, he believed that they should take some time to consider the long term energy future. They should address themselves to the post-oil era, for which they should start their preparations now. It would be too late in 10 year's time to deal with another energy crisis which hit them at that time. The whole energy picture would look different. He did not suggest that this be pursued at the morning's discussion, but they should address themselves a little further into the future to help give people confidence. If they could produce a vision about energy for the future this would have a very positive effect for the free world in a situation when some developments in East/West relations were not wholly reassuring or satisfactory. We should share our resources and pool our wisdom. We should focus on it at the next Summit.

/Mr. Andreotti

Mr. Andreotti said that the fact that they met each year contributed to enabling national public opinion to become accustomed to the concept of interdependence. It was important that issues relating to developing countries should not be seen just in terms of aid, but as part of the overall progress of humanity. This would reduce the demands in countries with high standards of living for continued improvement. The purpose of growth was to ensure employment of and an improvement in mankind. The Downing Street Summit had succeeded in conveying a message of a joint commitment to solve the problems of unemployment, especially of youth unemployment. Some countries, especially the US, had made progress. Others, including Italy, had been able to do little. He believed it important that the message of Bonn should be understandable to public opinion in their respective countries, and especially to the young. London had achieved some specific results e.g. the setting up of INFCE. They should try and pin point in Bonn aims that were easier for public opinion to perceive and would demonstrate their commitment to the solidarity of interdependence. They should not just look at their countries' welfare, but have a broader vision of humanity, a concept of human aims.

Mr. Trudeau remarked that the Summit must establish immediate goals to establish a feeling of confidence. It would have an immediate effect on hopes and aspirations, on whether people were optimistic or pessimistic and the declaration must take this into account. It must convey the idea that we can tackle problems. But he agreed with Mr. Fukuda that / ^{they} should look at the longer term. / ^{They} may not be able to solve ^{they} the unemployment problem at this or the next Summit. / ^{They} might advance in very small steps from Summit to Summit, especially if oil prices did become a problem once more. He sensed a contradiction between the feeling of progress which they wished to impart and the feeling that some had in their heart of hearts that the problems would not be solved in the short term. They must reassure public opinion that they were seeking long term solutions.

/He wondered

He wondered whether the potential of the second industrial revolution had been exhausted. Were we in an ineluctable stagnation? Should the Summit ask for studies to be undertaken either in their respective countries or in OECD to try and resolve all these contradictions? For example, they talked about free trade, but knew that they would need to intervene in the free market mechanism in the high energy cost era. How could the rate of energy consumption be reduced, and economic growth achieved?

It was just possible that they were at the end of a cycle which had been based on the electrical revolution. Before the next Summit they should exchange knowledge and expertise to enable them to inform their democratic peoples that they were looking at long term structural problems. Otherwise there was a danger of finding themselves at another Summit without having solved the short term problems. To continue the analogy of the Sherpas and the Summit, he feared there might be an abominable snowman lurking in the snows.

Chancellor Schmidt, speaking on behalf of the German delegation, said that he was not sure that it would be useful to pursue the question of whether or not we were in a long term cycle. There were very specific causes for the current world economic depression. It had been started by the world wide permissiveness of inflation, which had led to the oil price increase, which had led to the collapse of balance of payments structures, which had led to disarray on exchange rates, that remained to this day. Nobody could make any prediction on the basis of stability of exchange rates. He wished to concentrate on five points. First they must fight inflation. Secondly, they must achieve external international monetary stability, bringing balance of payments into balance and stabilising rates of exchange.

/Thirdly

Thirdly they must agree on the improvement of energy balances. He had listened with interest to what President Carter had said about reducing oil consumption and the current account deficit. He believed that every participant would wish to indicate whether they felt able to contribute to a package deal. Continuing on energy, Herr Schmidt said that if oil prices went up again in the coming year and he thought they would, their balance of payments would be affected in different degrees and there would again be disarray in exchange rates. That was bad enough. But if the Middle East situation again placed oil exporting countries under pressure from other Arab countries there would be very significant deterioration in the situation, especially in Japan and Italy, France and Germany. The situation would be less serious in the oil producing countries, the US, the UK and Canada. Italy and France had neither coal nor natural gas - their situation could be catastrophic. For economic and for strategic reasons therefore it was vitally necessary to reduce their dependence on oil imports. The European Council at Bremen had decided to reduce EEC dependence on imported energy by 50 per cent. This would be easy for the UK but difficult for France, Italy, Germany and Denmark. Germany was already spending 5 per cent of GNP to subsidise the coal industry. They had faced difficulties with public opinion and the environmentalists on nuclear power stations. But his resolve was firm and unyielding. They offered the only chance of reducing dependency. He would take Mr. Fukuda's suggestions a step further. They should study and make industrial countries much less dependent on imported oil -

- (a) because of the strategic dangers;
- (b) because of the frightening depletion of fossil reserves;
- (c) as a contribution to balance of payments, exchange rates and monetary stability.

Fourthly, Herr Schmidt said that the dangers of protectionism were very great. They were all under pressure, from their electorate the trade unions and industry. If they gave way to pressure others would follow suit and within 2 years there would be a very serious increase in unemployment. That was why we must recognise the crucial importance of resisting protectionism. They should agree

/to open

to open their markets more to each other in the future than in the past, as well as to developing countries. Progress had been made in the MTNs but the subject should be explored in greater depth on the following day.

Fifthly, Chancellor Schmidt turned to how other direct measures to promote higher rates of growth could be adopted. Germany had reduced unemployment to less than 4 per cent and inflation to less than 2½ per cent. Their exports covered their oil imports. Germany had a small current account surplus which he would be quite happy to do away with, since it entailed a loss of real income and represented a transfer of real resources. The Dm had been allowed to appreciate over the years to offset it. By importing foreign manufactured goods, some unemployment had resulted. Germany was rather like Japan; it had taken advantage for 20 years of an under-valued currency which had directed the attention of industry towards exports. Japan and Germany had an export-orientated industry. Now exports were declining but it would take 6/7 years to correct the export orientation. Germany would never again export ships; it was now unable to export cameras; it would also have problems on machine tools. This would have consequences. He could not boost employment in the German steel and shipbuilding industries by way of a monetary boost. Now interest rates were going up in Germany, which was undesirable in terms of employment and the exchange rate, especially viz a viz the dollar. Last month the Government had had to withdraw \$1½ billion worth of loans from the markets because of high interest rates. Boosting growth also presented constitutional difficulties. The 30 years old Article 115 of the Constitution (the direct opposite of Article 13!) forbade more credits than investment receipts in one year. If Germany were prepared to contribute to a package deal if others did, this might have disagreeable domestic political consequences and pose Constitutional problems. But he would choose the wording of the declaration very carefully to preserve their flexibility in respect of the Constitutional problem.

Germany was prepared to contribute to a package deal.

Mr. Roy Jenkins said that they all knew that if they did turn protectionist, whatever the pressures implied, unemployment /would

would in fact be higher not lower. He noted that significant progress had been made in the last few days on the MTNs. As regards the origins of the present crisis, he believed that there was already a malaise manifested in inflation and monetary lack of control when the oil crisis occurred in 1973. But it was possible, as Mr. Trudeau had indicated, that they had reached the end of a phase, that demand stimuli had been exhausted and the impulse for higher standards of living were diminished. The EEC was unique among major groupings in having inflation in its midst rather than being simply externally generated. What had emerged from Bremen was designed to be a buttress rather than a substitute for world monetary stability.

As regards energy, they would have no excuses in the 1980s for being taken unawares by a new crisis. It was of overwhelming importance that their dependence on imported oil be reduced. They should pursue alternative energy resources. This could itself contribute to an economic stimulus.

They should also give attention to the developing countries especially by encouraging them to self-sufficiency in oil and food, rather than in producing goods already in surplus.

On growth, the Bremen approach was ~~...~~ that they could grow better and more safely on a more concerted basis.

With reference back to what Chancellor Schmidt had said, ^{Druckers article} Mr. Trudeau drew attention to Peter / in Foreign Affairs, quoting what the German economist, Spitoff, had said at the turn of the century, namely that if a cartel in one commodity increased prices, prices of other commodities are reduced by as much or more. This may explain the perverse effect of the oil crisis on Germany and Japan who had benefited more from the reduction in price of their non-oil commodity imports than they had suffered from the increase in the oil price. Conversely, the US may have suffered more as an exporter of raw materials and of products made from raw materials. Herr Schmidt commented that the oil price increase

/meant that

meant that investors had less money to spend on commodities like copper, the demand for which had therefore been considerably diminished. President Giscard said that any theory thrown up at the turn of the century must have been in the context of fixed parities and a fixed money supply. The increased price of oil did not represent a straightforward price increase but an oil tax, and a transfer of real resources.

At this point, Heads of Government gave an account of their respective economic situations.

/Mr. Fukuda

Mr. Fukuda said that Japan, which was the country most dependent on imported oil, had been dealt a very serious blow by the oil shock. In 1974, they had a balance of payments deficit of \$10 b., inflation was 26 per cent and growth negative for the first time in 30 years. In four years, Japan had overcome these difficulties. Inflation was running at $3\frac{1}{2}$ per cent, growth had been 5.4 per cent in 1977 and their aim was 7 per cent in 1978. The improvement in the balance of payments had been too great - this was now his biggest headache. In 1977 the current account surplus had been \$11 b. It was the prime aim of their economic policy to reduce this surplus substantially in the 1978 fiscal year. In part the improvement in the trade balance would come by increasing imports. Japan must reflate and increase domestic demand. They must maintain a high rate of domestic growth without rekindling inflation. The realisation of the 7 per cent growth was a very crucial test. This had been thought to be a difficult aim at the beginning of the year but growth over the first quarter had been 10 per cent at an annual rate and, whilst this momentum was unlikely to be maintained, he was confident of achieving 7 per cent for the year as a whole. He was ready to take any additional measures needed to reach 7 per cent. He would see whether any were necessary at the end of August or the beginning of September, when they could also determine what was required. If legislation was required, he would table legislation in the Diet by the end of September. The first half year had shown a continued large surplus in the balance of payments.

/They were

They were therefore resorting to emergency imports of enriched uranium, oil for stockpile and aircraft but there should be a substantial increase on the import side. This however would not be enough. They were therefore contemplating, although this was not very desirable, adjusting or regulating exports. The aim would be that the volume of exports in fiscal 1978 should be the same as or less than those in fiscal 1977. If this were achieved and export prices remained the same as in 1977, the surplus would be eliminated virtually overnight. But export prices kept rising, especially given present trends in the US. The main factor was the higher rate of inflation in Japan's overseas markets. The action to restrain exports was unparalleled in Japan and had given rise to a lot of domestic criticism but he was overriding this criticism. Mr. Fukuda stressed that the price of exports was determined by their overseas markets. The problems of inflation and balance of payments were thus intimately linked. Inflation was a matter of crucial importance to the entire world. He was deeply concerned about it - he would like to see the others showing their concern.

Nevertheless the current account surplus would remain very large after these measures. Japan would therefore also be making maximum efforts on the capital account, e.g. by floating foreign bonds in Japan and by trebling ODA over three years instead of their previous objective of over five years.

Mr. Fukuda reiterated that he was doing his utmost to reduce Japan's surplus, but that his success would depend largely on progress in countering inflation elsewhere.

/He would like

He would like to see his efforts matched by the others.

President Carter said that he had listened with care and appreciation to the statements by Herr Schmidt and Mr. Fukuda which had demonstrated a very forthcoming and constructive attitude. The US intended to do its part. His greatest and most important domestic goal was to reduce energy consumption and to increase domestic production of gas and coal. They had also mounted new programmes to improve export growth. He pointed out however that exports accounted for only 7 per cent of US GNP. The US would also try and lessen growth differentials. They would continue their progress in reducing unemployment, but at a lower level of growth. There was also growing awareness in the US of the need for energy conservation. He had been more forceful than any other Democratic President in keeping down expenditure and the Congress had been very co-operative on this. The US trade deficit was too high, but it only represented slightly under 1½ per cent of GNP. In the first five months of 1978, the oil deficit had fallen by \$3/4 billion on an annual basis, although the deficit in manufactures had increased.

He was prepared to make specific commitments on goals to be achieved but he faced very difficult political problems on oil. The US was not just a major consumer but one of the largest oil producers in the world. Until he became President policy had been dominated by the producers. The shift of emphasis to the consumer was recent. The US had a wonderful relationship with Saudi Arabia who had done wonders to hold down the price of oil. /Oil consumers had benefited from a bargain price of oil through the decline of the dollar.)

/But there was

But there was a limit to what Saudi Arabia could do and they could not expect the oil price freeze to continue. He hoped that increases could be kept to the increase in the rate of inflation generally. He hoped too that the more responsible OPEC countries and indeed the Eastern bloc could be brought into the international consultative process on world economic matters and on relations with developing countries. He hoped that his own statement and that of Mr. Fukuda and Chancellor Schmidt would help to make a successful Summit.

Chancellor Schmidt then turned to the draft declaration and said that he had a sentence to propose as the German contribution in paragraph 3. He would have a meeting of his most important Ministers this evening before dinner and would only be able to get agreement to his wording if there were similar gestures by others. He would also then be able to go to the Constitutional Court and to Parliament with an expression of common will. The proposed wording was (and it was given in several versions by the official translator and by Herr Schmidt):

"As a contribution to reducing world-wide economic disequilibrium, the German delegation stated that it will submit to the legislative bodies in the course of September additional measures to increase demand and the rate of growth."

The introductory wording was to conform to the requirements in the Constitution and the timing was dictated because the summer Parliamentary Recess had already begun and MPs would not return until mid-September.

/The Chancellor of the

The Chancellor of the Exchequer commented that he did not quite hear what Chancellor Schmidt had said about the size of the growth package. Chancellor Schmidt said that he had not mentioned any figures.

6. President Giscard said that he had much appreciated Mr. Fukuda's statement which had had the virtue of being very precise and of putting figures to aims. It had also had a very specific arrangement for looking again at the situation if it appeared that the aims were not being achieved. He had also noted with satisfaction the objective of limiting the growth of exports. Did Chancellor Schmidt not have in mind saying in the declaration what measures Germany would in fact take?

Chancellor Schmidt said that he did not see the point of clarifying at the present time what measures would be taken. There would be a lively discussion in Parliament. There would be a meeting of the majority parties next week to discuss what to propose to Parliament. He would also have to carry the opposition, because they had a majority in the Bundesrat but they favoured different measures from those favoured by the Government. It was all very difficult. He could not say that he would be successful, but he thought he would get agreement on additional measures to stimulate demand and increase growth. Any Scepticism about the effect of any such measures was not something that he would like to put before the public.

Were there any other contributions to the text of the declaration?

/Mr. Fukuda

Mr. Fukuda said that he would prefer to reflect and provide wording later in the day.

Mr. Jenkins read the extract from the Bremen Speaking Note on concerted action. He believed that what Herr Schmidt had said gave this more sharpness and meaning but it was not possible to quantify what was understood by the Bremen text.

The Prime Minister reviewed the British economy. He said that the UK had made progress externally in reducing debt and improving its debt profile. There had been a big improvement in the reserves. (It was now about down to the OECD average.) The rate of inflation had been cut by two-thirds - but it was still too high by Japanese and German standards and continued restraint ('restraint' in British terms) was necessary and would be pursued. Moderate growth was being achieved - about 4 per cent which was not bad for the UK. Unemployment was still falling. Imports remained high - we had a very high propensity to import (which at least contributed to others' growth!) The money supply was under control. The effective exchange rate was near to where it had been one year previously. North Sea oil was helping us to sustain higher imports, but he could assure those present that Britain would use her maximum endeavours to keep oil prices down. There would be no pressure from us either covert or overt to increase oil prices. Taxes had been cut last October and this April. It would be imprudent to reduce them further. Only if there was a general improvement in the world economy could the situation be reviewed.

/On procedure,

On procedure, he suggested that as it was nearly the end of the morning session they should continue to talk over lunch about the declaration and return to the wording afterwards.

On the text of the declaration, Chancellor Schmidt suggested that the Bremen language of concerted action should precede whatever was said about German growth. He believed it would be very valuable if the UK could go along with a sentence referring to its continuing fight against inflation. The Prime Minister said that he would be prepared to go along with that - it would be of help domestically.

President Giscard commented that the ^{Bremen} exercise derived from the report of OECD working group under Mr. Schulze which had laid down specific objectives for each country. France had accepted its objective, namely a stimulus of 0.5 per cent of GDP. This was not too demanding - the main French problem was inflation and he would be quite ready to see it in the declaration.

President Carter commented that the declaration seemed to be getting somewhat lengthy. He believed it would be better for the personal representatives to discuss it and to try to produce a shortened text. Everyone seemed to be cautious. If the EEC and Germany were reluctant to be specific about their objectives, it would be difficult for the US to be specific on energy. He drew a distinction between goals and the techniques to achieve these goals. The delineation of percentage increases and figures were much more impressive to the public than general statements. The US was prepared to put in the declaration specific commodities and goals.

/Mr. Andreotti

Mr. Andreotti then gave an account of the Italian economy. Their efforts over the last two years had been partially successful but the trends were moving in the ^{right} direction. Inflation in 1978 was down to 12/13 per cent from 17.5 per cent in 1977. Oil imports had been reduced by 10 per cent between 1973 and 1977. The balance of payments surplus was \$3.5 b. in 1978 compared with \$1.7 b. in 1977. But there was a very considerable budget deficit. He was about to present to Parliament a three-year plan which would enable him to make very considerable cuts in public expenditure which would leave room for recovery of investment, which would run at a very low level. Unemployment remained very high at 7 per cent. He was prepared to see a sentence covering Italy in the declaration.

Mr. Trudeau said that since they were now apparently all going to have a reference in the declaration, he would be prepared to see something covering Canada. This might best be related to its efforts to continue the fight against inflation. Canada was still looking for 4½-5 per cent growth in 1978 but this would have little impact on the unemployment rate since it had the fastest growing labour force in OECD.

Bringing the morning session to an end, Chancellor Schmidt said that there should be contacts between the experts over lunch to try and agree texts. In the meantime there should be no press briefing at this stage. The Prime Minister said that work on the text should not go too far over lunch, which would itself provide an opportunity for Heads of Government to give the work a political impetus.

The session ended at 12.35 p.m.