

Ref A02407

MR ALEXANDER

VENICE SUMMIT: OPENING STATEMENT

With my minute of yesterday's date I attach a first draft of this statement. This has now been revised in the light of comments from the Foreign and Commonwealth Office. I attach this revised version.

ROBERT ARMSTRONG

ROBERT ARMSTRONG

20 June 1980

Enc

VENICE: DRAFT OPENING STATEMENT: ECONOMIC DISCUSSION

1. When we met last year in Tokyo we had to face the impact on the world economy of the second huge increase in oil prices in 5 years. Oil cost \$2 a barrel in 1975. It costs \$30 now. The price increases of 1975/74, and 1979/80 have each caused major harm to the world economy.

2. The damage which we foresaw in Tokyo is now upon us. In 1978 inflation was at an average rate of 8 per cent in OECD countries. In April this year it was 14 per cent. For some of us it is much worse. We may have reached the peak of the inflation but the recession is only now beginning. The world will lose at least 2 per cent of growth in 1980 alone. In spite of the efforts of the moderates in OPEC we have no assurance that the rapid succession of oil price increases which began last year is at an end.

3. The less developed countries which have no oil will suffer at least as much as the developed countries. It may be that for them the worst still lies ahead. They face the effects of world recession and the need to finance and adjust to the higher oil price. In doing so they will need help, both from the international financial institutions and from the stronger countries of the West and of OPEC. This is necessary not only for economic and humanitarian reasons; but also because of the serious political implications for the West, following the invasion of Afghanistan, if their problems are left untreated. We must therefore respond to these problems with sympathy and examine how best we can initiate action at this meeting.

4. There have been some encouraging developments. I hope that the Zimbabwe settlement will open the way to economic improvement in central Africa. I welcome too the admission of the People's Republic of China to the International Monetary Fund and the World Bank as a positive step towards a stronger world economy. But other developments can only be regarded as set backs which have added to the damage caused by the oil price increase. The Soviet invasion of Afghanistan and the taking of American hostages in Iran have led to interruptions in trade. Fighting and civil disorder in large areas of East Africa contribute to human misery there and further retard development.

5. In this situation we must continue to give first priority to the fight against inflation. We are all anxious to avoid a general recession. But we shall have no sound basis for recovery if we do not achieve a major reduction in the rate of inflation. We could swiftly find ourselves back into double digit inflation as soon as recovery started, and that would stop recovery in its tracks.

6. We must at the same time create the right conditions for the massive investments necessary to reduce dependence on OPEC oil. They include the £20 billion invested in North Sea oil and gas, the investments of France in her nuclear programme, the public programmes for new energy sources announced by the President of the United States, the world wide retooling of the motor industry to produce smaller and more economic cars and so on. This is the main route by which we can escape during the 1980s from the constant threat of high inflation and low growth now imposed by oil price and supply. It is the way to loosen the link between growth and OPEC oil. It represents a massive challenge to the organising ability and technical skill of the free world, as well as a huge demand on its economy. It calls for the right pricing policies to call forth this investment and the right regulatory, tax and environmental policies to foster it and make it acceptable.

7. There must also be the right conditions for the flow of funds which have to finance the large deficits created for both less developed and developed countries by the oil price increases, and to finance the new energy investments. I believe that the capital markets of the free world can measure up to most of this task, but we will need to consider how the international financial institutions, especially the IMF and the World Bank, can be enabled to do more.

8. One more requirement of policy which I mention last is not the least important. It is that we should counsel moderation in the pricing policy of OPEC. They have seen what immoderate increases do to the world economy and especially to the less developed countries. Their own interests are not served by these consequences. Moderation in pricing is a mutual interest. We should welcome a constructive dialogue on energy and related issues if this seems likely to be fruitful.

9. I believe that the free economies of the world can rise to this challenge and in doing so can use and preserve the open market system with which their freedom is linked. I hope that we can profit from our experience after the first major oil price increase. That experience taught us that the first priority ought to be to win the battle against inflation.

Ref: A02403

MR. ALEXANDER

Prime Minister.

Am not very

happy. No Venice. 19/6/80.

we will discuss it

Venice Economic Summit: Prime Minister's
Opening Statement

We agreed that I would arrange for the drafting of an opening statement for the Prime Minister to make at the first session of the Venice Summit.

2. The attached, based on a first draft by the Treasury, is still subject to comments from the Foreign and Commonwealth Office which I expect to receive soon. I will then let you have a revised draft in the light of these.

RA

Robert Armstrong

19th June 1980