

Copied to USA, Feb. 1978
(PM's visit)

file 16

10 DOWNING STREET

THE PRIME MINISTER

16-3-78
PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T61 24/78

I said in my letter earlier this week that we had now developed some ideas for collective action to restore confidence, generate growth and develop world trade. These ideas, and the analysis on which they are based, are set out in the attached paper.

We need to restore international confidence by a new act of collective leadership in the management of the world economy. The natural focus for that would be the July Summit meeting in Bonn, but a great deal of preparatory work would be necessary. The Summit meeting ought to be able to endorse proposals carefully prepared in advance.

We see a requirement for concerted action by the main economies of a concrete and specific kind across a broad front of economic policy. This action could form part of an agreed programme to be announced at the end of the July Summit. It would not be enough for us to deal simply in aspirations, declarations or forecasts. The action to be undertaken under this programme would have to be of a kind which would convince the markets that an improvement in both the level and the balance of world activity was likely to come about; and which would thereby make a significant improvement in confidence in, and within, our western economic system. The objective would be to achieve a better use of the world's resources, both human and material.

One great merit of a concerted approach of this kind would be that it ought to put individual countries into a position to take action which, on political or other grounds, would otherwise be difficult to take. It would be easier for each of us to take and defend action of this kind against the background of a major international agreement. We would be able to do that in the knowledge that the concerted action would be worth more for each of us than the sum of its parts and that there would be a bonus for us there.

We have grouped our proposals under 5 headings: growth, long term capital flows including aid, energy, trade and resistance to protectionism, and greater currency stability. We are in no way wedded to particular details, but we think all 5 elements would be necessary to a convincing plan of action agreed to by Heads of Government. In particular we think that substantial action is needed under all of these headings to restore full confidence in the dollar and to produce much greater stability in the foreign exchange markets.

If we could achieve an agreement of this kind, I see a series of important advantages for the United States which would also prove to be advantages for all of us. The first benefit would lie in the improved prospect of convergence between the growth rates of the United States and the European economies as a result of higher European growth. I know you have already laid stress on the need for this as a means of helping the dollar, and I believe it would do a great deal to achieve that.

Secondly, an agreement on resistance to further protectionism, at a time when there is a great risk that it will accelerate, would be welcome to the United States. Thirdly, a further emphasis on the importance of energy policy in the world recovery could help you in the development of your energy programme within the United States.

I would hope that the plan could yield a gain to confidence which should help investment in the United States and the United States stock market. By checking the fall of the dollar it could also help to reduce inflationary risks in the United States and to avoid increases in interest rates.

The plan should provide a framework for further action by the Japanese to achieve their objective of reducing their current account surplus to \$6 billion in 1978/79. That would be an essential counterpart on their side to moves on the growth of the European countries and to further action in support of the dollar. The plan could also be helpful for our relations with the oil exporting countries. Because of its impact on the value of the dollar and because of what it contained about energy policy, it could help to moderate OPEC oil pricing policy. It could provide a basis for persuading some of the oil producing countries to lengthen the term of their investments in the United States.

As I said in my earlier letter, we cannot accept the alternative of simply letting the free economies drift downwards. We do not have confidence that intervention in the foreign exchange markets on its own can put matters right. We fear that it may take some time to convince the markets that the US deficit is going to fall. We fear that European growth will continue sluggish and that the Japanese current account surplus may not diminish greatly in dollar terms in 1978/79 compared with the \$12 billion or so in 1977/78. We do not wish to see your Administration put under pressure to cut back on American growth because of the state of the dollar, the size of your deficit or the scale of your imports - whether through higher interest rates or in other ways. Our interests are closely in line with those of the United States over practically all the field discussed in our paper, and I know there is already much common ground between the American and British views of how best to tackle the situation.

I do not underestimate the difficulty of securing the level of agreement which would produce concrete actions on the necessary scale under this plan instead of generalised aspirations. In particular, we both know the difficulty of persuading the Federal German Republic to take further action on growth. But as I said in my earlier letter, Chancellor Schmidt might be persuaded to respond to a carefully worked out plan which could be ratified at the July Summit in Bonn. Even if he was not convinced on merits, I think he would lead the FRG to make a positive contribution to a package if we were all committing ourselves to comparable measures in our different ways. All the indications I have had suggest that France would also be ready to join in such a plan.

More broadly, all our governments would gain credit from demonstrating our ability to devise and agree a plan of this sort, and the free world would be strengthened in its dealings with the Soviet Union. The lack of investment and the growth of government intervention policies made necessary by recession are tending to erode the market economy of the West. If our plan succeeded, it would reverse that trend.

It would be critical to the success of this plan and to achieving the necessary impact on confidence to see that the elements were linked and that their effect was not dissipated by piecemeal action. On the other hand, we cannot afford to defer every kind of action until the July Summit. We should therefore seek to agree ^{early} a statement by appropriate Heads of Government which would endorse the principle of a plan with these five components, and propose that any action by governments between that statement and the July Summit should be related to the plan. For example, the United Kingdom would relate the action we expect to take in our Budget on 11 April to the plan. The Summit would ratify the plan in July and any action already

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taken under it, and would carry that action further. Clearly, governments would try to link action directly to the July Summit where a short deferment would do no harm.

I hope this letter and the document attached will provide a useful basis for discussion between us.

With warm regards,

The President of the United States of America



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10. DOWNING STREET

From the Principal Private Secretary

16 March 1978

Dear Peter.

The attached envelope contains a letter to President Carter from the Prime Minister setting out the Prime Minister's personal judgement on the case for an international initiative to restore confidence in the world economy. The letter covers a paper setting out what that initiative might comprise. The Prime Minister would be grateful if you would arrange for his letter and its enclosure to be handed over to President Carter as soon as possible so that the President may consider it before he and the Prime Minister meet for their talk on Thursday 23 March.

I enclose for your personal information a copy of the Prime Minister's letter and the supporting paper. The letter derives, as you know, from working papers discussed at the Prime Minister's seminar which you attended, although the main paper has been substantially revised since then, not least in the light of the Prime Minister's talks with Chancellor Schmidt. The Prime Minister would, of course, welcome your own views on the proposals as they now stand and on their presentation to President Carter. We expect that President Carter will put the paper out to his advisers for consideration and comment before he sees the Prime Minister and you may learn what their reactions were. Any guidance about this which you can let us have either before we leave London or when we arrive in Washington would be helpful.

Yours sincerely,

Ken.

His Excellency Mr. Peter Jay