



SPEAKING NOTES FOR PRIME MINISTER TO USE  
AT DINNER IF APPROPRIATE

THE COMMUNITY'S EXTERNAL RELATIONS

1. Our domestic Community problem is to manage the recovery of our economies. This requires the right balance of policy in each of the three main parts of the industrial world - the United States, Japan and the Community itself. It also requires the right balance of trade and financial flows between those three parts of the industrial Free World. If we get that balance right, the developing world will benefit also.

2. At present, this balance is not being achieved. In the US, monetary policy is too tight and fiscal policy too lax. The result is high interest rates. In Japan, monetary policy is too lax and fiscal policy too tight. The result is a weak yen. The international system suffers from both.

3. We need to use impending series of international meetings to tackle these problems. Industrialised democracies must take full account of their interdependence and of their responsibility for maintenance of open trading system on which future prosperity depends. Message to be brought home, especially to US and Japanese, in OECD in May, Versailles in June, IMF Board of Governors in October and GATT Ministerial in November.

4. The Communist system is under acute strain. Socialism has never met spiritual needs of peoples living under it; not meeting material needs either. Only question is which country of Eastern Europe will default first, and how far collapse will spread. The US must be brought along to an appreciation of the European view on these issues. Community is much more deeply involved than the US.



5. Need for Community to speak with common voice on all these issues so as to make its weight felt. Welcome Council decision of 22 February on Japan. Must build on that and on regular contacts with US, eg over trade issues and recent Buckley mission.

6. Need for European Council to give clear signal of unity, and of determination to tackle and defeat these problems. Better a communique that says a few basic things clearly than many complicated things at greater length.