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FILE

10 DOWNING STREET

From the Principal Private Secretary

SIR JOHN HUNT

I attach a copy of my note of the Prime Minister's meeting with the Chancellor on Wednesday. I have not copied it to the Treasury nor to the Foreign and Commonwealth Office, and would hesitate to do so since my impression of the discussion was that it was fairly confused and contained a lot of jockeying for position.

K.R.S.

7 August 1975

CONFIDENTIAL

THE ECONOMIC SUMMIT

NOTE OF A MEETING BETWEEN THE PRIME MINISTER AND THE
CHANCELLOR OF THE EXCHEQUER ON 6 AUGUST 1975

The Chancellor said that Germany and France were committed to some kind of an economic summit and he wished to discuss this with the Prime Minister in the light of what had happened at Helsinki. The Prime Minister agreed that there was a commitment for Germany and France but said that the line he had taken in Helsinki was that to build up to a summit with no result would be a disaster. To achieve a positive result was difficult, however, because the United States would have to carry with them Messrs. Burns and Simon, whose views were cautious, while President Giscard had a single objective of returning to fixed parities. There was a great danger of a long wrangle developing and this could only be avoided if the ground were properly prepared. What he had suggested therefore was a kind of Camp David of Finance Ministers but Dr. Kissinger had virtually ruled this out because of the trouble he would then have with Mr. Simon. Herr Schmidt had thought the solution would be to have a body like Sir Eric Roll's group but the Prime Minister thought that the discussions must be on a governmental basis. It would, therefore, be sensible to start with officials having discussions and then go on to a meeting of Finance Ministers and then to Heads of Government; his own view as to the subject matter on which the discussion should focus had been that it should be on interest rates. The Chancellor said that the central

CONFIDENTIAL

- 2 -

issue was reflation but this was difficult because the Americans did not really need anything more than was currently being done, which was intended to give them a boom in April 1976. The Germans and the Japanese were the people who should really act, specially since German unemployment was going up at the rate of 30,000 a month. As to the way of proceeding, the Chancellor said that it would be folly not to include Mr. Simon in any discussions and in any case a series of meetings was now in train starting with the meeting in Venice in mid-August followed by the discussions in Guyana and leading up to the G5 meeting in Washington on 30 August. This last meeting seemed to be the most likely point at which it should become possible to see a way forward and it would be preferable to wait until that meeting had taken place before entering into any commitments about progress towards an economic summit at Heads of Government level.

The Chancellor said that the German view on tactics, with which he agreed, was that they would agree to take the French proposals for a return to fixed parities as an item for discussion at the summit, in return for securing French agreement to discuss the IMF quotas in a constructive way. There was no risk to the UK position on this, because he was convinced that the whole world would combine against the French as regards a return to fixed parities.

CONFIDENTIAL

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CONFIDENTIAL

- 3 -

Paris is worth a mass. Meanwhile he thought it would be desirable to let Gordon Richardson see the paper which Herr Schmidt had written for Dr. Kissinger, of which the Prime Minister had a copy and had shown to the Chancellor. The Prime Minister agreed to this but said that the paper was to be treated as top secret because of its origin.

The Prime Minister, summing up, said that the position was quite clear:

- (a) President Giscard's initiative for a summit was focussed on his ambition for a return to fixed parities;
- (b) Herr Schmidt wanted a summit primarily to pursue the aims of reflation which would be helpful to him in terms of his own domestic politics;
- (c) the United Kingdom interest was the same as the German interest in that we wanted the strong currencies to reflate without becoming committed in any way to a return to fixed parities;
- (d) the Group of Five meeting at the end of August was a first step on the road to the summit and the Chancellor should report

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CONFIDENTIAL

CONFIDENTIAL

- 4 -

back after his meeting to the Prime Minister (he should also let the Prime Minister have a message after the Venice meeting of any significant developments there);

- (e) the first step which the UK should pursue thereafter was to set up a small governmental group at official level to identify the options open and the subjects to be pursued at a summit - the UK representatives should be Sir John Hunt and/or a senior Treasury official in consultation.

The meeting ended on the basis that the next step would be for the Chancellor to report back to the Prime Minister after his meetings in Venice, Guyana and Washington.

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