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Economic Summit, Second Session
Sunday, November 16, 1975 10:45 a.m.

Trade and Monetary Issues

President Giscard: We agreed yesterday evening that today would be devoted to trade and if time was left over to monetary issues. Our Finance Ministers have been working while our Foreign Ministers have, I might say, been resting.

If agreeable, let us start with the commercial problems. Prime Minister Miki will open this discussion.

Prime Minister Miki: Yesterday Chancellor Schmidt addressed himself to trade in general terms. As Prime Minister of Japan, I would like this morning to make a few personal comments on trade.

Two years ago, at the Ministerial Conference of the GATT in Tokyo, we began the present effort on trade. President Giscard d'Estaing honored us with his presence. Mr. Ohira, then Japanese Foreign Minister, chaired the meeting. We issued the Declaration of Tokyo, which has proved to be very effective and appropriate. This was adopted, of course, prior to the oil crisis. And we did not properly deal with the subject of raw materials. We should address ourselves to this also in the Tokyo Round.

With respect to freer trade, our emphasis on free trade is consonant with our strong emphasis on human well-being. I would like to recommend that the Tokyo Round be completed in 1977. President Giscard, in Tokyo, said that the cherry blossoms will be in bloom three times before completion. That was two years ago, and would have meant completion in 1976. Now we will need to have them in bloom one more time, four times in all. But if they bloom five times, it will not be satisfactory. We should try to see that the cherry blossoms bloom only three or four times.

All of us have been beset by pressures for import restrictions. We in Japan have been as well. Our textile producing neighbors have made inroads into the Japanese market. As a result we have had requests for protectionist measures in our country. But in spite of domestic difficulties we in Japan have taken an adamant stand to avoid restrictive measures, and have tried hard to avert them. If one country imposes restrictionist barriers, a chain

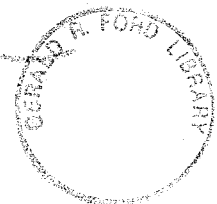
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reaction is inevitable. Next spring there will probably be better business conditions. But now we should make a clear stand not to resort to protectionist measures. We must avoid the mistakes of the 1930's. This meeting should agree that there must be no restrictionist measures on imports in our countries. This statement would be a good result of this meeting.

With respect to the developing countries we must recognize that trade is important not only among developed countries, but also should be expanded between developed and developing countries. In this spirit we must recognize that the developing countries have exhibited serious deficits -- \$30 to \$50 billion this year. We cannot expand our exports and total world trade in light of this huge build-up of deficits. We should try to find ways to increase the purchasing power of the developing countries. I will refer to this further in the North-South discussions later. If we can overcome the financing difficulties of the developing countries we can also help expansion in the developed countries.

These are the basic problems to be addressed by the group here.

Thank you.

President Giscard: Prime Minister Miki should be the moderator of this discussion. Is that okay?

Prime Minister Miki: Okay. Would any of my colleagues like to respond, in a frank and candid way?

Prime Minister Wilson: All agree that it is important to have an early and sustained recovery in international trade. The decline in trade is having a disruptive effect on economies, and this on top of the disruptive effect of oil price increases on trade and payments. The problems we face are the most formidable challenge to trade since 1947.

As I stressed last night, countries with strong balance of payments and good inflationary records have a particular responsibility. Unemployment is one reason why countries resort to trade restrictions; protectionist pressures will worsen if these problems cannot be overcome.

We need a Marshall Plan type initiative, especially for the Third World. But unlike the Marshall Plan this should be international in origin, and should not be based solely on the generosity of one country, as the Marshall Plan was on the US. Now no one is suggesting that this should be one-way generosity across the Atlantic. We are dealing with the problems of trade on an international level. Unless we can solve our problems, there will be protectionist pressure by those desirous of increasing employment.



We will deteriorate into an everyone-for-himself situation.

All of us have recognized, in the Declaration we have signed (OECD Trade Pledge), that as a general rule such protectionist measures would merely shift the problems from one to another. We recognize the need to resist generalized protectionist measures. But we also must insist on retaining our right to take actions to protect our interests in accordance with GATT rules. The UK has been a strong supporter of the GATT, we have been quite gentlemanly in living up to its rules, and we adhere to it strongly. I myself headed the UK delegation to the meeting which drew up the GATT, which lasted six months. We spent more time on the Havana Charter, although that was not ratified, as we know. The GATT lasted longer than its progenitors thought it would. This is consistent with your French saying, President Giscard, that it is the temporary solutions which last the longest.

We recognize the US problems in the Trade Act. The US has no alternative but to let the Trade Act take its course. I recognize fully that the US has eschewed protectionism, and this is to be commended. But we are alarmed at the number of petitions submitted under the Act. We have been relieved to hear the statement of President Ford and other officials on their intentions to avoid irresponsible measures. And we have been gratified by your actions. We commend especially your decision to reject the petitions on the VAT steel case with respect to the EC. We hope that the administration will proceed in the same manner in the future.

We know also that the US has not felt itself bound by the GATT on countervailing duty issues. The US has resorted to the grandfather clause under which laws previously enacted can continue in force even though inconsistent with the GATT. This applies to not accepting injury findings before beginning a countervailing duty investigation. And anti-dumping codes also are not respected because of prior legislation. I understand of course that you, President Ford, are aware of these problems.

There is no quick result in the trade area. The situation will benefit from the things we discussed last night to achieve economic recovery. And, as I said last night, we should watch the situation in case of hiccupping recovery anywhere. But I agree with Prime Minister Miki--progress in the multi-lateral trade negotiations can achieve psychological benefits as well as long term trade liberalization.

President Ford: The US is very firmly committed to the goal of an open world economy. This can best be served if we join in leadership of a new



round of multilateral trade negotiations. I suggest we try to reach agreement on the following goals:

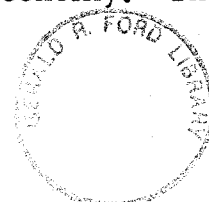
- Substantial tariff cuts no less ambitious than in the Kennedy Round.
- A reduction on non-tariff measures through the negotiation of agreed codes on subsidies, standards and government purchasing practices.
- The elimination of all tariff and non-tariff barriers in some commodity areas.
- Completion of the tropical products negotiations in 1976.
- Additional arrangements for meaningful, special and deferential treatment for the developing countries.
- A significant improvement in the trade regime affecting agriculture.

In the past year, our US negotiators have had extensive consultations with Congress and private sector groups in order to establish a broad consensus in support of US aims. These deliberations have confirmed the goals which we set ourselves in the Tokyo Declaration two years ago, and which form the foundation of my proposals today.

We in the United States are, therefore, prepared to move forward with renewed vigor. I urge you to join me in directing the negotiators of our respective countries to expedite their efforts so that the Tokyo Round can reach its final stage in 1977. I suggest that our trade negotiators meet at the earliest opportunity to work out the details of a forward-looking program, which could be adopted at the next meeting of the Trade Negotiating Committee in December.

In looking for a way to expedite these negotiations, I must frankly raise an issue that has been a source of great difficulty in assuring progress. We in the United States recognize that domestic agriculture programs are a very delicate political problem in other countries, as they are in the United States. It is imperative, however, that we work out a mutually acceptable basis for limiting distortions to trade in agricultural products. In this connection, we should not allow procedural difficulties to prevent substantive negotiations on this issue of vital interest to all countries.

By joining together in support of a program that will infuse vitality into the multilateral trade negotiations, we can best assure a positive attitude in our countries toward our common goal of an open world economy. The



tremendous expansion of trade in the last 25 years, from a level of \$50 billion to \$800 billion, has been of great economic benefit to our countries in terms of new investments, new jobs and a higher standard of living. These gains cannot be preserved without a serious and forward-looking political effort on our part.

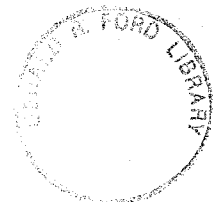
As a result of our current economic difficulties, there are forces abroad in all our countries seeking to distort patterns of world trade. All of us need to make a special effort to resist these pressures on a cooperative basis. I urge you to join me in the following set of principles to guide us during this difficult period:

- We should resolve issues giving rise to the most difficult domestic pressures through negotiation in the multilateral trade negotiations;
- We should jointly resolve to avoid all policy measures which might prove disruptive to the trading interest of our countries;
- We should agree to resort to limited emergency trade measures only in particularly acute or unusual circumstances, and we should be prepared to fully utilize existing consultation arrangements;
- We should instruct our negotiators to successfully conclude the "Gentlemen's Agreement" regarding export credit;
- We should reaffirm our adherence to the OECD Trade Pledge, and express our intention to renew it next spring.

Consistent with such a cooperative approach, I pledge to deal with problems in our bilateral trade relationships on a common sense basis. Where flexibility exists under our domestic law and procedures, I am prepared to exercise it.

As the leaders of our countries, with the task to look ahead, we must not allow short term difficulties to divert us from the ambitious goals we set for ourselves in Tokyo two years ago. I urge you to join me in exercising leadership in each of our countries, to restrain those who would resort to unlimited beggar-thy-neighbor policies, and to support those who are engaged in a common effort to negotiate a mutually satisfactory basis for expanding world trade.

Prime Minister Miki: Thank you, President Ford.



Prime Minister Moro: Our approach to international trade is based on the fact that economic development is encouraged by the liberalization of trade through gradual reduction in trade barriers, and tariff barriers in particular. The well-being of people also requires implementation of safeguards systems, improvement in economic integration and better distribution of work and resources.

We should respect these principles at this time of reduction of world trade. This decline is unprecedented in the post-World War II period. It is caused by inflation, recession in developed countries and then in developing countries. In this climate there is a great temptation to envisage restrictive measures. But we should bear in mind the disastrous consequences of a generalized resort to restrictive measures. Some have already occurred. These should be fought against through international cooperative efforts. This cooperation is an alternative to application of restrictions on imports which would harm all countries, and the developing countries first. External demand is essential to economic development in all countries.

The behavior of the industrialized countries is particularly important at a time when we are already perceiving recovery. The responsibilities of the industrialized countries are very great. The strength of our economies is essential to recovery in most other developed countries, and in other countries as well. We should reaffirm in 1976 the OECD Trade Pledge, in which countries are committed to refrain from protectionist measures. It is also important to strengthen work on an agreement to coordinate industrialized country export credit policies. We have been attempting to coordinate credit policy, but have not achieved very satisfactory results. In the short term, we should also coordinate development aid. And we should make an effort to reduce the direct obstacles to trade as well as eliminate disruptions to trade--therefore we need an additional stimulus to the Tokyo Round of trade negotiations. Progress in the Geneva negotiations has regrettably already been hampered by differences with respect to goals, particularly issues relating to the liberalization of agricultural commodities, and differences with respect to certain non-tariff barriers and certain negotiation positions. We would all benefit from working out principles of agreement with respect to goals to be achieved. Opening of markets is essential to deal with the present world crisis.

President Giscard: My statement is similar to what others have said. The question of freedom of trade is closely related to the dangers of recession. In recession there is always a tendency toward restrictive measures, which could result in disastrous effects. We must demonstrate that we are truly resolved to oppose restrictive trade measures. This is an essential political question, with technical overtones. We should not

merely talk more about freedom of trade. The question is what we decide. We must make major efforts to keep frontiers open. We need a commitment to this end here at Rambouillet.

I participated in the opening of the multilateral trade negotiations in Tokyo. Trade was still expanding rapidly then. The situation was that the US had a trade deficit, and Japan and Europe had big trade surpluses. We then hoped that we could complete the trade negotiations in two years, although I thought that might be a bit unrealistic. Now, if we can do it in 1977, it will be a remarkable achievement. We feel negotiations should be continued on the basis of the Tokyo Declaration and should achieve positive results. We should not today reopen the delicate checks and balance between the various considerations. Today we should resolve to promote the negotiations despite changed circumstances. I hope for significant results in the near future.

We should also express support for the GATT. This is the only organization at present in which our group of countries still exercise significant influence. We should express support for the GATT as an institution.

We should recognize that protectionism exists in our countries. In the US, legislation has become more protectionist--especially Section 301 of the Trade Bill. But the Administration has not given in to protectionist interpretations. However, the pursuit of a large number of investigations has a major psychological impact. One-quarter of French exports to the US are now covered by legal proceedings. Our producers wonder where they stand. This cannot help but give rise to protectionist sentiment in our countries. We have protectionist pressures as well. We have taken measures versus Asia to restrain textile imports.

Some middle level countries--Australia, New Zealand, Israel, South Africa, Sweden and Portugal--have also taken protectionist measures. We should recognize that it is not only the industrialized countries who should have open frontiers while the borders of others are closed. We should exert joint pressure to oppose protectionist actions by other countries as well.

I think that this meeting should conclude two things:

- That we are committed to renew the Trade Pledge of 1974 when it expires. We can express the view that we will propose that it should be renewed.
- That our fundamental policy is that we are resolved to pursue open trade, along the lines of the Tokyo Declaration.



Chancellor Schmidt: Mr. President, after the preceding statement it looks like we are all in complete agreement. There are no contradictions at all. However, the tone of the presentations differ slightly. I attach considerable significance to what we say to the world. We should demonstrate a maximum degree of determination. The US statement and that of the French President are very much in agreement. Whereas in the US industries and trade unions, and in France, and in the EC, one can perceive strong trends in favor of import restrictions--trade barriers.

The countries in this room should act together not just because of a deep-rooted liberalism but because the market system benefits us.

We should first of all explicitly pledge ourselves to act to avoid any form of protectionism which could reduce market opportunities and to fight all protectionist measures. This is in the interest of recovery for all of us.

Second, we should renew the Trade Pledge, and state this in no uncertain terms.

Third, we should pledge our governments to step up the GATT negotiations.

Fourth, it would be a good idea if we are able in this conference to agree on export credit conditions. Our Finance Ministers should do this. I am under the impression that agreement would be particularly desirable between the US and French Ministers. Others could offer their good services.

Fifth, it is desirable to explicitly state, for public opinion, that the present world recession is not a particularly favorable occasion to work out a new economic order along the lines of certain UN documents. It is important, however, to improve the structure of world economic relationships, recognizing the interests in the LDC's. We could elaborate on this and say the following things:

- It is fundamental to increase the possibilities of the LDC's--especially their share of world trade and world product.
- It is desirable to promote the transfer of technologies, implement Generalized Preferences, and support all measures to achieve liberalized trade as far as possible with the LDC's.
- It is also desirable to take a concerted approach with respect to the functioning of all raw material markets.



One additional point, there is an underlying danger of agricultural protectionism in the US and the EC. A bilateral move toward protectionism might lead to very undesirable results. My three other EC colleagues might not be in agreement. The US President is probably not in agreement either. In the US and the EC we should recognize the fact, on a mutual basis, that our agricultural sectors have certain characteristics which are undesirable. We should be mutually prepared to discuss agricultural matters in the trade negotiations in connection with economic and political matters in the industrialized sector. This matter cannot be settled today, and should not be referred to in public. But the US and the EC are important trading partners. It would endanger the credibility of our liberal approach to world trade, if, in the agricultural sector, agriculture ministers undermine the general atmosphere.

Prime Minister Miki: We should give credibility to our consensus on the importance of freedom of trade. It is to be hoped that as we make public the results of this meeting, this will constitute a very important item.

Prime Minister Wilson: I would like to add a few words on the Trade Pledge. We reaffirmed this pledge last May for a further 12 months. I do not believe it is useful to add anything to that reaffirmation. We retain our normal rights on such things as dumping, but will exercise them with care, respecting our international, and our EC, obligations. As you will recall, in accepting the Trade Pledge we agreed under the condition that sufficient financing will be available to cover deficits, and that the economically strong countries would assume responsibility to adequately expand their economies.

I have said many times that I do not believe that generalized import restrictions are desirable for the UK. They would ultimately end up by hurting our own exports. One-quarter of our production is for export.

I agree with all that has been said about the Tokyo Declaration and the MTN, and proposals for this new type of Kennedy Round, whatever we name it. Perhaps the American President would be a likely candidate.

Chancellor Schmidt: It should not be the Ford Round because that would be unfair to General Motors.

Prime Minister Wilson: I don't really care if it is unfair to Chrysler.

We rule out generalized import restrictions, but we cannot rule out protection for particular industrial sectors suffering or threatened with serious injury as the result of increased imports. It is particularly important that we be able to protect ourselves in particularly acute or unusual circumstances, as President Ford has indicated in his statement. There are some signs of lethal attacks by other countries directed at destroying two or three

sectors of our economy. These are not lame duck industries. They can be viable when recovery comes if they survive this period, particularly if their survival is not threatened by a concerted attack. Some of these attacks are especially virulent and threatening, such as those from Eastern Europe and Taiwan, and threatens the existence of these industries.

I also agree with what President Ford, I think, said about the need for a mutually acceptable basis for regulating trade in agriculture products.

Chancellor Schmidt: Harold, you talked of viable industries, and indicated that this excluded lame ducks. You referred to textiles as an example. I am a close friend of the chairman of the textile workers union in Germany. It is a union of a shrinking industry. I would hope that this would not be repeated outside of this room. Given the high level of wages in Europe, I cannot help but believe that in the long run textile industries here will have to vanish. We cannot ward off cheaper competition from outside. We will eventually need some hothouse or botanical garden for this industry. It is a pity because it is viable; capital invested in a job in the textile industry in Germany is as high as it is in the German steel mills. But wages in East Asia are very low compared with ours. The garment industries in France and Italy, which make high fashions, will survive. They are ingenious and creative and will survive. The German textile industry is viable, but will vanish in ten or twelve years. We should not, however, speed this up during the recession; but it will happen.

Also, Harold, are you talking of motorcars? There are rumors in the US and UK that people want to exclude foreign auto imports through certain ingenious methods. Germany is a major market for Italian, French, and Japanese cars. If they are cheaper they ought to be sold there. If we try to ward off competition, we will add to world recession, economically as well as psychologically. Resisting such pressures is what I meant when I said that we must explicitly pledge to fight tendencies toward trade restrictions in our countries.

I see both motorcars and textiles as viable. The textile industry will have to suffer in the long run but motorcars will survive. These industries can be innovative and viable over the longer term. If we resort to restriction of industrial production, we are hurting world trade.

Prime Minister Wilson: I accept Chancellor Schmidt's distinction between short and long term. I have long experience with the textile industry. It has shrunk at a faster rate in the UK than in Germany. Now it is a highly modernized industry. A great deal of capital has been invested, increasing productivity while reducing the number of workers. It does not have to



vanish. Some parts of it are highly specialized. Not all will have to go. But I agree there is a difference between what will happen in a few years and what happens during this recession. I believe that predatory attacks from abroad will have to be resisted. Sometimes, however, they are difficult to prove, as in dumping.

With respect to footwear, the worst abuses to fair trade come from Eastern Europe. We think some of these are planned. On the matter of motorcars, I too take the view that this industry can and will survive. The industry has a bad headache at the moment. We are restructuring British Leyland which was out of date. We are providing capital on a competitive basis, not on subsidized terms, for restructuring this industry. I am confident that the US interests in the UK car industry are viable--Ford and Vauxall are indeed competitive.

I agree also with the distinction between autos and textiles. All textiles are now tied together under a multi-fiber agreement. We all recognize the problem in textiles. When I talk about viability, I do not say they will survive indefinitely. The problem is letting industry go down in a recession, aggravated by attacks, go out with their throats cut.

I recently went into a shop in my Liverpool constituency to buy a shirt. I couldn't find one of the kind I wanted with my neck size. But I did see an array of shirts from Korea on a table as big as this room. They were being sold at a price which I regard as a dumped price, but this is difficult to prove. Our textile industry is revivable; it is not a write-off. But we are going to make efforts to subsidize textiles in assisted areas, giving them reasonable help. Eventually some of them should shift out into other areas, such as chemicals.

President Giscard: Since this is a meeting of heads of government, the conclusions belong to the heads of government. There are two things we should do. We should agree not to engage in protectionist measures and we should express our determination to accelerate the MTN along the lines of the Tokyo declaration.

But we should avoid the Helsinki danger which is that public opinion does not believe what we say. If governments, a few weeks later, take measures in the opposite direction of what we say here, people will not believe our declarations at this meeting. On the Continent, it is believed that the UK is going to implement generalized import restrictions. If this were done people would say our deliberations here were not credible. Prime Minister Wilson's statement allows us to take a more vigorous attitude.



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(the British record of this
meeting shows that Giscard's
remarks are reported in full in
the US memcon)

My position on adjustment is one-half of the way between the Chancellor and Prime Minister Wilson. Many of these industries can survive if they evolve, if they specialize. The US textile industry is highly specialized; it produces goods of high quality, and for that reason it can survive. We need specialization along with a modification in size. We in France still make fine materials. We leave the ordinary production to others. To generate this kind of evolution we need to accept market pressures. We must avoid gigantic immediate problems resulting from imports, and therefore we may need certain sectorial measures.

Our system of price competitiveness does not fit in well with Eastern Europe. Competition between ourselves is an objective fact. Some of our prices are lower than others and that is the way we compete. With respect of imports from Eastern Europe, no one knows if prices correspond to production costs. We will have to give thought to the problems raised by Eastern Europe. We cannot tell if prices are calculated on the same basis as ours.

President Ford: The US auto industry is viable. It has responded well to market pressures. The evidence is its resurgence, which we believe will continue next year. For a period of time it did not respond well to the demands of the US public for smaller and more efficient autos. Now we have responded to pressure from Europe and Japan.

Although this year the US auto industry, particularly labor, sought action under the trade law for an investigation, I am convinced that we have met the challenge. I cannot forecast with certainty the same results as in the case of the steel industry matter. The auto industry will respond, and be viable, and will not force the US to adopt a protectionist attitude. The Administration will resist actions by labor and management in this test case.

Prime Minister Miki: We in Japan suffer from some imports like North America and Europe. Particularly we have a problem vis-a-vis imports from Asia, where most countries have lower wages than Japan. It is important for our countries to engage in collaboration, getting information on a mutual basis to resolve problems of this kind. We should avoid engaging in measures in violation of the principles of free world trade in solving each of our problems. We should make a determined stand on the inadvisability of restricting trade.

President Giscard: I think we have concluded this discussion of trade. The Foreign Ministers should give thought to these issues. Now I would like to go to monetary issues and try to conclude them before lunch.

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Monetary Issues

President Giscard: On monetary matters, the technical side is enormously complex. Certain people here know the technical aspects very well. But our discussions today should be on a political level, to determine a particular orientation. We had the Bretton Woods system, which we lived under for years. It worked well until the 1970's. It was a sort of religion. When people criticized it they were condemned for heresy. From 1970 on it began to fall apart. Now people who speak well of it are treated as heretics.

We are at present in a floating situation. Canada, Germany, the US, Italy, France and the United Kingdom all took decisions to bring that about. This was not a collective choice, but successive individual decisions. Under the floating system, we have had deep fluctuations. People in favor of floating feel that the market is just as qualified as statesmen to decide on exchange rates. The main spokesman for this view was Carl Schiller, who has since disappeared from the scene.

Chancellor Schmidt: Thank God!

President Giscard: There have been considerable fluctuations in currencies in recent months--and particularly the dollar versus the European currencies--that did not reflect the relative economic situations. These changes were purely monetary in nature. They reflect the technical situation in the market, not the real situation. The economic situation in our countries did not change 25% in a two or three month period. The problem this raises is that whether whole sectors in our economies are competitive or not depends on the value of our currencies with respect to the dollar. This determines what we can or cannot sell. It is futile to discuss lowering of tariffs from 7 to 5% since this means nothing if there are major changes in the relative value of currencies. These fluctuations are a source of disorder in the world economy. They have contributed to the world recession.

It is desirable to have more stable exchange rates. We could, in my view, set up a more stable monetary system. But some say that conditions are not right for such a system. We need not discuss this today. I know the US position. Would it not be more striking for us to reach agreement here--for the great Western Democracies to attempt to bring order to the international monetary system? We could in this way have a more positive impact on the evolution of the world economy than we could by not making a decision.

For East Europeans it is incomprehensible that industrialized country exchange rates change so much. The developing countries also see this as decadence.



But we should not now reach agreement on this, and we need not discuss it at greater length. There are two other possibilities--to discuss what a more stable situation in the future might be, and to determine how to improve the IMF. At the Nairobi meeting of the World Bank/IMF we agreed on a future monetary system, although we have subsequently not managed to finalize the form. Hopefully we can reach some agreement in Jamaica. If we could move this further, it would be a good step. Today we should not have a theoretical or technical discussion on the future situation but we can today give the world the impression that the monetary system will be more stable.

Japan wants greater monetary stability versus the dollar. Italy and Britain have internal economic policy situations which require managed flexibility in their external affairs. They require a certain leeway. France, Germany and Benelux have managed to stabilize exchange rates among themselves. But there are fairly strong fluctuations between the seven countries in the "snake" and the US dollar. Can we stabilize the rate of the seven with the dollar? The Italians are apparently nearer to joining the "snake" than earlier, which should make a contribution.

Could central bank action, already successful in reducing monetary instability, do something more? Could this improve stability with respect to the dollar? In the present circumstances there are no agreed parities, but I regret this. We should in any case try to give more stability to the system. Let the central banks set up a more active exchange of information. Let us see if it will be possible to reach agreement at Jamaica on changes in the IMF rules. We should aim at a more active role for central banks in stabilizing exchange rates and for reform of the IMF.

Chancellor Schmidt: The French proposal is useful, and conciliatory, if one looks at the substance.

First, a more general remark for public use tomorrow with respect to financial issues. The highly volatile movement of exchange rates in the last two and one-half years, and the enormous sequence of meetings under the IMF umbrella, give a bad impression to our publics. They convey a message of uncertainty and unpredictability in the world economy. This is not so bad for our countries or the multinational corporations, or for big national corporations. But it hurts the small countries, and enterprises who just cannot cope with uncertainty about exchange rates, or make long term deals if they don't know what the exchange rate will be even 24 hours from now. Big countries and corporations can deal with it. Small ones cannot.



For public use we need to stress greater continuity and calculability with respect to the monetary system. In effect what we have now is not a system, it is a constellation.

With respect to the French points, I agree that fluctuation between the dollar and the "snake" must be reduced; this is the key to dampen volatility of world exchange rates. For individual European countries, 50% or more of trade takes place at stable rates within the realm of the "snake." Trade has not decreased as much within the "snake" countries of Europe as it has with other nations outside of Europe. We should show that we have not only the intention, but also the will to dampen exchange rate volatility; thereby, we can add to world recovery.

It is worthwhile to consider whether we should publicly say we would try from both sides, by intervention of central banks, to dampen the world movement of exchange rates. We have had some success in 1975. We should not fix a margin, because if we do so, markets will try to move against it. Couldn't we build on what has been done so far through the intervention policies of the central banks. We should make clear that the US is interested in dampening volatility. I know that more action to intervene by the US central bank would not make much difference. You have to borrow through swaps in order to intervene. But you can give the impression that you are interested in dampening volatile movements.

I come back to the Jamaica meetings. Looking back through history, I find it very difficult to understand the enormous prestige invested by more than just one country participating in this discussion in the future of the monetary system or the IMF. What Valerie said was forthcoming. He did not insist that as soon as possible we go back to fixed parities. This should be honored by the other side. We should ask our Finance Secretaries in Jamaica to arrive at a solution based on the results of the discussions of the IMF Interim Committee, which met in Paris a number of months ago. This compromise quite rightly put stability of the system, or constellation, into the foreground. It envisaged fixed parities as an ultimate end.

Fruitless meetings of the Finance Secretaries are devastating. They are diminishing confidence and will continue to do so if we don't get results. We cannot now have a system of fixed parities. We have already dampened floating rates. In the end we all know we want fixed parities though. The endless discussions are creating uncertainties in industries. Let's get that out of the way. We should agree in Jamaica on a modus vivendi -- state what we are doing and end the struggle on theology. I know of the difficulty this poses for the US, since it is opposed in the Senate. But all of us here have oppositions.



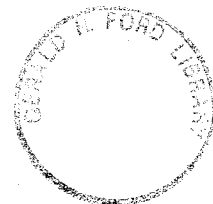
We should not, at this time, make these arrangements public. But we should agree here and stop the discussions. I say this from an economic and political point of view. People just don't understand the future of the monetary system. People are reading of the irritations among us on this issue, and when they read of these irritations they become irritated themselves.

President Ford: During the past year there have been intensive negotiations by our Finance Ministers to complete a package of amendments of the IMF Articles of Agreement in order to accomplish reform of the international monetary system. Progress has been substantial but arrangements have not been completed. We all share the broad objective of exchange stability, but we all agree that a system of exchange rate arrangements based on par values would not be viable at the present time. I would further state that the US and France have reviewed these issues and we have resolved our differences on exchange rate matters. This will be an excellent signal that this overdue agreement can be signed in Jamaica. I hope that the Finance Ministers can reach final agreement today or tomorrow.

I hope we can also explore ways to achieve more stability under current economic conditions. We believe that the resolution of these issues must be firmly rooted in the successful management of our domestic economies. The international exchange system that is adopted must permit each country to choose the exchange rate regime that will permit it best to pursue its desired growth, employment and stability policies while meeting its obligations to other countries to avoid trade and cooperation restrictions and other beggar-thy-neighbor practices. Consistent with this concept there are a number of alternative formulations that might be considered.

In seeking to maintain orderly conditions in exchange markets, we should be aware that no regime that runs counter to market realities could remain in effect for very long. Within that constraint there are a number of concepts that might be adopted.

Our experts have been working on these problems for some months. They have made good progress. They have especially made major efforts prior to this meeting. I think we all share an interest in rapid resolution of these questions, even though present arrangements are working well. We have made a major effort prior to this meeting with each of you to resolve these questions. I hope that we can reach agreement by January of next year.



Prime Minister Wilson: I agree with President Giscard d'Estaing's forthcoming and conciliatory approach and with President Ford's statement. We should not allow dogmatic beliefs to hinder progress. We should separate long term from short term objectives. Our emphasis should be on stability in the long term with adequate ways for prompt and adequate adjustment.

Now on the issue of goals and stability, etc., there is a difference between France and the US. This brings to mind the ruling of a Yorkshire judge on a rape case. He was very deaf and did not hear a word of the evidence. For seven hours he thought he was listening to a case of a breakdown of a marriage. After seven hours he ended the proceedings with the comment, "What a pity that these two young people cannot get together." In my view the heads of government should tell their Finance Ministers to settle this before the Interim Committee Meeting in Jamaica. They should bring this problem back to the Group of Ten next month.

Prime Minister Miki: I had the notion that differences between the United States and France might create confusion at the meeting. I welcome the conciliatory relationship between France and the US. There is nothing illegal or inconsistent about floating. Since we are now caught in a period of inflation, recession and economic conditions of continuing instability, conditions are not ripe for moving to a fixed parity system. We must distinguish between the long and short term point of view. Attempting to reach an agreement in Jamaica in January is the most practical thing at this time.

Prime Minister Moro: The French analysis contains thoughts which we can largely share. We should not give up the purposes of a more stable system, which is the one which prevailed until recently. We should all bring a contribution. It is desirable to have a certain discipline in dealing with fluctuations, but Italy and Britain now need a certain amount of flexibility as well. We will do all we can to reenter the "snake." Agreement should be reached on the issue of stable exchange rates taking into account the Giscard approach and the US President's constructive views.

I was impressed by Chancellor Schmidt's statement. I agree that mention should be made in the Communique of the desirability of central banking system participation and agree that they can be helpful. I hope the Finance Ministers can put it in the Communique.

Chancellor Schmidt: I agree with what has been said.

President Giscard: I am interested in what happened with respect to the rape in the UK before World War I. The way this issue of exchange rates



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is presented should emphasize that we are meeting here to tackle the difficulties of the world economy. The question of theological attitude or final situation did not come up here; we were considering what is needed now. We should emphasize the cooperation among the Finance Ministers.

I am not sure I agree with Chancellor Schmidt--do you really think that we should stop the Finance Ministers from enjoying the beauties of the good life at their frequent meetings? But I agree we should reach a solution.

There is a possibility of a common attitude with respect to Jamaica. I recognize that it is mainly between the French and US Finance Ministers to work things out, although they should meet with their other colleagues to make certain that the agreement fits with their attitude. This matter is the first priority for the Finance Ministers to include in their discussions.

This afternoon we should do energy, raw materials, and developing-developed country issues. We will meet without the Finance Ministers, only with the Foreign Ministers. The Finance Ministers will work on the first part of the Communique. The Foreign Ministers will then meet tomorrow to discuss the follow-up. Also at that time the heads may exchange information among themselves. We can do that after dinner or tomorrow morning.

Do the Foreign Ministers prefer to meet tomorrow or tonight? If it is agreed, the heads will meet among themselves tomorrow morning. The Finance Ministers will meet together this afternoon at 3:30. We will meet at 4:00.

President Ford: Mr. President, you expressed interest in having a discussion of New York City. When would it be appropriate to do this? Now, or this afternoon? I think the Finance Ministers might like to hear this too.

President Giscard: Let's do it now while the Finance Ministers are here.

President Ford: Over the last four months I and the Economic Policy Board have met with the Mayor of New York City and the Governor. They have proposed to us orally the things they are going to do. But over the last three months there has been no firm proposals of a viable nature. Nothing written. Over the last 72 hours, however, the following has been agreed to:

- The State will impose certain additional taxes, and identify specific reductions in city and state expenditures.



- They will enact a state statute along the lines of what was enacted in the 1930's providing for renegotiations of obligations of investors.
- As a consequence of enactment, there will be a renegotiation of bonds, extending maturities and lowering interest rates.
- The labor organizations will renegotiate their pension plans which were heretofore uncontrollable and excessive.

If all these things are done, there will be two possibilities:

- The possibility that with the strong measures I have identified, private money would meet the seasonal demands of New York City. If all these things are done, New York City will have a seasonal five months demand for \$1.5 billion. Over the next seven months, they will have a cash flow such that at the end of the twelve month period they will end up at 0. The second year they will need \$5 billion on a seasonal basis, but after the twelve month period they will again end up with 0 deficit.
- If these things are accomplished, and the banks are unwilling to meet the problem I would probably recommend legislation either to guarantee the obligations of the City to meet the cash flow problem on a seasonal basis or legislation to loan to New York City necessary money to meet the cash flow problem with a lien against money advanced by other government programs. This should satisfy the questions and the psychological concerns that many people have in the US and the world.

The problem earlier had been that we have had promises but no written proposals for action--no action by the City, State, financial institutions or unions. If they do these things, these courses of actions on a technical level will be taken.

The only way we have achieved results is to be difficult. But I want to tell you that I have gone further here than I have publicly. This has been a sort of brinksmanship by the Administration forcing New York City and New York State to take responsible action.

Chancellor Schmidt: Let me express my gratitude, Mr. President, for your statement. I am relieved. I was concerned about the drastic effects in other countries. I also want to excuse myself for the blunt remarks in New York City a while ago.



President Ford: There were people in our countries who sought to generate apprehension and concern. People felt we had been discounting the adverse effects had the City gone into default. It was my belief that by keeping pressure on the politicians in New York faced up to things they had to do. Let me add also that the relationship between the city and state governments and the federal government in the US is different from those of Europe. By patience and firmness our policies will achieve satisfactory ends.

Prime Minister Wilson: Thank you for your reassurance. Could you tell us further whether you want it mentioned to the press that you discussed New York City? Would it be better if there were no comment on the fact that New York City was mentioned.

President Ford: This is very sensitive internally. I think it would be best if the fact that this was mentioned was not made public. If there is advance information that we are caving, necessary action will not materialize.

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