

(Copied to
Mr. James)

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July
28th

Speech

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for word)

We are only half way through 1979 but so far this year we have had to watch the prospects for the world economy deteriorate month by month. We began the year with a good chance of a better balance of growth between the major countries and less exaggerated balance of payments surpluses and deficits also. There was greater currency stability. Because of what has happened on oil the prospects are now much worse, especially on inflation.

For the second time in 5 years the vulnerability of the world economy to developments on oil has been brought home to us. The economic growth which looked like a natural law in the 60's looks a fragile thing in the second half of the 70's. This is a profound change for the developed countries. But among the biggest sufferers are the developing countries who have no oil. They lose through increased oil prices, through reduced world activity and through the fact that the developed countries are less well placed to help them. All this means more instability in the world, both economically and politically.

/I believe

I believe the economies of the countries of the free world have the resilience to surmount these difficulties, as they did in and after 1974. But the room for manoeuvre in economic policy in our countries has been reduced.

In meeting here in these circumstances I believe that we assume a heavy responsibility.

We imply that we can offer leadership and guidance not only to our own countries, but to others.

If we leave the impression that we are failing to face facts, or are taking refuge in pious platitudes, the state of the world will be worse than when we came.

It seems to me that our best course ~~is~~ is to make the position on energy and the world economy clear in the simplest language we can find; to say what we can do; but not to be afraid to say what we can't do. We shall inspire more confidence by combining realism with candour than by burying the truth in meaningless phrases.

/ Nowhere

Nowhere does this apply more than to the problems of energy.

I do not want to anticipate the detailed discussions we shall have about this but I would like to pick out two or three points which are important.

The first one is that while we must do everything we can in the immediate situation, we have to prepare for the long term too.

We must keep up, year after year, our efforts to reduce the dependence of the economies of the free world on uncertain sources of supply of oil.

Further, we ~~may~~ should allow the price mechanism to do its job to the full in reducing demand and increasing supply.

This does not exclude other action.

And we have to face squarely the fact that nuclear power is going to be needed on a large scale to fill the energy gap.

We must apply our efforts to developing it and at the same time do all we can to reduce or eliminate the risks associated with it.

After energy, the second theme where a major response is required of us is inflation.

I believe the lesson of what happened to us from 1974 onwards is that we must not accommodate the inflation produced by oil price increases.

We must fight it.

To do that we have to convince our peoples that the oil price increase represents a loss of real income which ~~has~~ has to be accepted.

This does not mean giving up all hope of growth.

On the contrary, this realistic approach provides the best foundation for the resumption of growth.

And we will have to back that up by doing all we can to improve the efficient working of industry, agriculture and commerce, and the speed with which they respond to change.

This too calls for a sustained effort.

I believe that if we can achieve a balance of supply & demand in oil we must make real some understanding with producer countries. I regard all
Need to consider carefully what the basis of any approach to them should be.

I regard all these precepts as applicable to the United Kingdom.

On energy, although like two other countries represented here we are a major energy producer, we see our interests as closely identified with those of consumer countries.

We are therefore making determined efforts to save energy.

Again, we know we have a particular problem in the need to rebuild the strength of our industries and make them competitive.

.. What I have said about fighting inflation and about adapting to change applies even more forcibly to us.

We are here to give a lead. To succeed in that I believe that we should approach our problems in the realistic spirit I have described.

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Second Permanent Secretary
Overseas Finance

26 June 1979

B Cartledge Esq
10 Downing Street
LONDON SW1

Dear Sir

TOKYO : PRIME MINISTER'S OPENING STATEMENT

As requested, I attach some paragraphs which the Prime Minister may care to use as a chopping block in preparing an opening statement for Tokyo.

I am sending copies of this to the Private Secretaries to the Chancellor of the Exchequer, Foreign Secretary, Sir John Hunt, Sir Michael Palliser and Sir Jack Rampton.

Yours sincerely,

Graham Lohan

RP

K E Couzens

TOKYO

DRAFT FOR PART OF PRIME MINISTER'S OPENING STATEMENT

We are only half way through 1979 but so far this year we have had to watch the prospects for the world economy deteriorate month by month. We began the year with a good chance of a better balance of growth between the major countries and a better balance of payments surpluses and deficits also. There was greater currency stability. Because of what has happened on oil the prospects are now much worse, especially on inflation.

less exaggerated

2. For the second time in 5 years the vulnerability of the world economy to developments on oil has been brought home to us. The economic growth which looked like a natural law in the 60's looks a fragile thing in the second half of the 70's. This is a profound change for the developed countries. But among the biggest sufferers are the developing countries who have no oil. They lose through increased oil prices, through reduced world activity and through the fact that the developed countries are less well placed to help them. All this means more instability in the world, both economically and politically.

3. I believe the economies of the countries of the free world have the resilience to surmount these difficulties, as they did in and after 1974. But the room for manoeuvre in economic policy in our countries has been reduced.

John R. ...

4. In meeting here in these circumstances I believe we assume a heavy responsibility. We imply that we can offer leadership and guidance not only to our own countries, but to others. If we leave the impression that we are failing to face the facts, or are taking refuge in ~~verbiage~~ ~~or formality~~, the state of the world will be worse when we leave than when we came. ~~I speak with humility as a newcomer, but~~ It seems to me that our best course is to make the position on energy and the world economy clear in the simplest language we can find; to say what we can do; but not to be afraid to say ~~also~~ what we ^{can't} cannot do. We shall inspire more confidence by combining realism with simplicity, ~~and~~ ~~confidence is what the world badly needs.~~

magazine

How by burying the truth

in meaningless phrases

immediate situation

Cardow

5. ~~I think it is quite clear that our first response to the situation which faces us has to be to do more about saving and producing energy.~~ I do not want to anticipate the detailed discussions we shall certainly have about this but I would like to pick out ^{two or three} ~~two or three~~ ^{most} ~~themes~~ which I see as important. ^{The} ~~First~~ while we must do everything we can in the ~~short term~~, we have to prepare for the long ^{term too} haul. ~~For every economic and political reason we must keep up, year after year, the effort to reduce the dependence of the major economies of the free world on uncertain sources of supply of a critical raw material.~~

our efforts

None does this apply more than to the problem of energy

→ all

6. ^{Further} Secondly, we should allow the price mechanism to do its job ~~to the full~~ in reducing demand and increasing supply, ~~without excluding direct action intended to accelerate these effects.~~ ~~Thirdly,~~ we have to face squarely the fact that nuclear power is going to be needed on a large scale to fill the energy gap. We must apply our ^{efforts} ~~energies~~ to developing it and at the same time do all we can to reduce ~~or eliminate~~ the risks associated with it.

This does not exclude other

And

7. ^{the} ~~the~~ second ~~area~~ ^{line} where a major ~~policy~~ response is required of us is ~~of~~ inflation. I believe the lesson of what happened to us from 1974 onwards is that we ~~have to~~ ^{must} fight the inflation produced by oil price increases, and not accommodate it. To do that we have to convince our peoples that the oil price increase represents a loss of real income which has to be accepted.

After energy

not clear

like must take it.

my all hope of

8. This does not mean giving a low priority to growth. On the contrary, ~~it means providing~~ the best foundation for the resumption of growth. And we will have to back that up by doing all we can to improve the efficient working of ~~our~~ economies and the ~~flexibility of their response to~~ change. This too is a ~~medium term response~~ ⁵ calling for sustained effort.

this realistic approach provides

Speed with which they respond to

industry, agriculture & commerce

9. I regard all the precepts to which I have referred as applying to the United Kingdom. Like two other countries represented here, we are a major energy producer but we see

0 energy altho

we know

our interests as closely identified with consumer countries.
~~and we have shown our readiness to join in energy saving.~~
~~The British consumer is taking perhaps even a bit more than~~
~~his share of the effort.~~ Again, ~~we have a particular~~
~~problem in the need to rebuild the strength and competitive~~
~~efficiency of our industries~~ ~~but~~ what I have said about
fighting inflation and about promoting flexibility of
response applies to us also. It is in that spirit that I
look forward to joining in our further discussions.

even
more
flexibly

accepting to change

and make them
competitive.

and
take on whatever we are ^{determined} making ~~the~~ efforts to
~~including~~ save energy.

We are ~~not~~ ~~to~~ ~~give~~ a lead
I believe therefore that we should approach our
problems in the realistic ~~but determined~~ spirit.