

cf Master Set

file 137

NOTE OF A MEETING ON UK INTERNATIONAL ECONOMIC INITIATIVE HELD AT 10 DOWNING STREET AT 1100 ON WEDNESDAY 15 MARCH 1978

PRESENT

- The Prime Minister
- Chancellor of the Exchequer
- Secretary of State for Foreign and Commonwealth Affairs
- Chancellor of the Duchy of Lancaster
- Governor of the Bank of England
- Sir J. Hunt
- Sir K. Berrill
- Mr. K.E. Couzens
- Mr. C.W. McMahon
- Mr. K.R. Stowe
- Dr. B. Donoughue
- Mr. N.L. Wicks
- Mr. P. Mountfield

*Germany March 1978
'Visit to Bonn'*

The Prime Minister said that, following his talks with Chancellor Schmidt over the weekend in Bonn, he had now decided to go ahead with his proposed meeting with President Carter. Schmidt had taken a fatalistic line, arguing that reflation would not succeed and would in any case hurt the German economy. But he had encouraged the Prime Minister to go and see President Carter, and the President had responded favourably. The next step was to consider the draft paper prepared by the Treasury, which he proposed to send to the President under a more "political" covering letter, in advance of the visit.

*USA Feb 1978
PMS Unit
to Washington*

In discussion of the paper, circulated with Mr. Battishill's letter to Mr. Stowe of 14 March, the following points were made:

Paragraph 2 iii

The latest estimates of the OPEC surpluses showed a reduction on earlier costs. If these figures were correct, they would ease the pressure in one sense, because they would shift the focus to the surpluses of the large consumers West Germany and Japan. The OPEC surpluses would grow again if the world economy were expanded.

/Paragraph 2 iv

Paragraph 2 iv

There was no point in understating the consequences of an inadequate international reserve system. The Americans should be brought to recognise their responsibility for managing the sole reserve currency.

Paragraph 11

It was arguable that faster growth was an objective rather than a component of the plan. Certainly in putting the case to President Carter, it should be stated in these terms, though this might be better done in the covering letter than in the main paper, which would have to go to other countries as well. The emphasis in presenting this to Carter should be placed upon making full use of under-utilised resources.

There was also a problem, raised by this paragraph, concerning the timing of different elements of the package. On the one hand, there was a danger of individual agreements being reached piecemeal, which would detract from the main impact of the passage: it was agreed that the whole was more than

/ the sum

the sum of the component parts. On the other hand, there could not be a complete freeze on economic negotiations, bilateral or multilateral, between now and the July summit. It was quite possible, for example, that earlier action would be needed to support the franc or even the dollar, while the MTNs would be continuing and various other international discussions would be under way. (A possible way of dealing with this problem was worked out in discussion following the meeting and embodied in the redrafted paper.)

In the same paragraph, it should be made clear that the German attitude was officially negative, but there had been some indications of possible future movement.

Paragraph 12

In this paragraph, or in the covering letter, it should be possible to take credit for the forthcoming UK Budget as the first instalment of our commitment to the growth objective.

Paragraph 18

The references to the Third World and the role of enhanced aid flows should be strengthened.

Paragraph 23

The section on energy should be extended in consultation with the Department of Energy.

Paragraph 24

The section on world trade and the threat of protectionism should be emphasised. This passage should be redrafted in consultation with the Department of Trade. A separate brief should be prepared for the Prime Minister on the possibility of French import controls.

Paragraph 26 onwards

The whole of the section on the future international monetary system needed further work. It was not necessarily right to move back to a system of fixed rates.

Paragraph 31 onwards

The section on the capital account and the reserve role needed to be re-written. One solution was to shore up the dollar and strengthen the American economy by the various measures under discussion until the dollar could once again play its full part as a reserve currency. Another possibility was to move by agreement to a multi-polar currency system. A third, which should possibly be the long term aim, was to create a new international system based upon the SDR. There would certainly be problems for the Americans in any of these solutions, and the case would need to be presented to them very carefully.

Covering letter

The section on the improved prospects of convergence should be altered to make it clear that the aim was to level up rather than to level down.

The Prime Minister, summing up the discussion, said that the Treasury should redraft the paper in the light of discussion, in consultation with the Bank of England and, on certain passages, with the Department of Trade and of Energy. The paper should be available for him that night with a view to transmission to Washington the following day.