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NOTE OF THE FIRST SESSION OF THE CONFERENCE OF HEADS OF GOVERNMENT OF FRANCE, GERMANY, ITALY, JAPAN, THE UNITED KINGDOM AND THE UNITED STATES AT THE CHATEAU DE RAMBOUILLET ON SATURDAY, 15 NOVEMBER 1975 AT 6.00 P.M.

PRESENT

France

President Giscard d'Estaing
M. Jean Sauvagnargues
- Minister of Foreign Affairs
M. Jean-Pierre Fourcade
- Minister of Economy and
Finance

Italy

On Aldo Moro - Prime Minister
On Mariano Rumor - Foreign
Minister
On Emilio Colombo - Minister
of the Treasury

United Kingdom

The Rt. Hon. Harold Wilson,
O.B.E, M.P.
The Rt. Hon. James Callaghan, MP,
- Secretary of State for
Foreign and Commonwealth
Affairs
The Rt. Hon. Denis Healey, M.P.,
- Chancellor of the
Exchequer

Germany

Herr Helmut Schmidt - Federal
German Chancellor
Herr Hans-Dietrich Genscher
- Federal Foreign Minister and
Vice Chancellor
Dr. Hans Apel - Federal Minister of
Finance

Japan

Mr. Takeo Miki - Prime Minister
Mr. Kiichi Miyazawa - Foreign
Minister
Mr. Masayoshi Ohira - Minister for
Finance

United States of America

President Ford
Dr. Henry Kissinger - Secretary of
State
Mr. William Simon - Secretary of
the Treasury

The meeting opened with a procedural discussion. President Giscard had proposed that no note-takers should be present for the meetings, but that tape recordings of the session should be made available to Delegations after each session. After some discussion, however, it was agreed that one note-taker for each Delegation should be allowed to attend the meetings.

GENERAL ECONOMIC OUTLOOK

Chancellor Schmidt said that, although all countries had been affected by the recession, they had been damaged in different ways, and it was important to bear in mind these differences when discussing their common problems. The world had so far been spared the spectacular collapse of stock exchanges and banks, because there was a greater understanding of economic relationships than had existed between the two wars. Rising inflation had, however, led to a breakdown of the Bretton Wood's fixed parity system, thus adding to the lack of confidence already caused by inflation itself. On top of this had come the dramatic rise in the price of oil which

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which had affected everyone, including particularly the developing countries who were forced to cut back on other essentials to pay for their oil. The sequence of inflation, the disturbance of the fixed parity system and the quintupling in the price of oil, had in turn led to shrinking world trade, and thus to unemployment in countries that depended on their exports. Entrepreneurs were now very cautious and Germany would suffer a real decrease of G.N.P. of 2 per cent in 1975. His government's main objective must be to bring down the rate of unemployment or there would be social unrest. Despite the optimistic views expressed in some quarters, he was not convinced that we had yet seen the worst of the recession. He felt this, not so much on economic grounds, as because the recession itself had been due partly to political errors and neglect: and politicians were capable of making further mistakes. In his view it was necessary to stimulate private consumption, to promote expansion and to keep interest rates down. Since the depth of the recession had been partly due to psychological uncertainty, it was important to send a message of confidence from Rambouillet. The German Government was running the biggest budgetary deficit in its history and had so far been able to keep unemployment down to 5 per cent. But if there were another 10 per cent increase in the price of oil, the upturn could be killed off. In his view the Rambouillet Conference should set four objectives:

- a. On trade they should ward off any protectionist trend: they should maintain the O.E.C.D. trade approach: and they should call for a speeding up of the G.A.T.T. negotiations.
- b. They should intensify their co-operation on their own national economic policies, including co-operation between their central banks: and they should do everything possible to promote an agreement at the IMF meeting in January 1976.
- c. They should realise that financing of the balance of payments gap was vital to the recovery of the developing countries. There were many schemes which had been put forward, but at least agreement ought to be reached on a scheme to stabilise export earnings.
- d. The consumer/producer dialogue would probably take a long time to produce significant results: but we should persevere with it to avoid drastic unilateral action on either side.

President Ford agreed that it was necessary to work together in the economic field in order to stabilise the political background. The United States' people had however reacted very well to the recession and he had not noticed any significant growth in protectionist feeling. He realised that there was apprehension elsewhere about the trade investigations which the United States Administration had undertaken. They had however to undertake these investigations under United States law: and it did not imply that there would be a protectionist outcome. He agreed that an impulse should be given to the GATT negotiations and said that the U.S. Administration now had a good trade law which would enable them to co-operate. He saw no serious political problems arising in the United States as a result of the recession. There was no rapid rise in radicalism. He thought the Rambouillet Conference could send out a message of interdependence and co-operation which would contribute to a feeling of international confidence. The health of the U.S.

economy was significantly better. They would get the maximum growth in the short term, without releasing new inflationary tendencies. Their recovery was very strong (11 per cent in the third quarter, with the fourth quarter looking very promising), and production was growing at 13 per cent per annum. Personal income was rising strongly, and so was consumer confidence; liquidity had improved; the decline in fixed investment had bottomed out earlier than expected; the money supply would remain adequate; and there had been a record crop year. The industrialised countries must show firmness in discussions with the oil producers. This did not mean taking a belligerent attitude: but equally so it would be disastrous to be weak. He repeated that, as a result of responsible fiscal and monetary policies, he was optimistic about the situation but agreed that it was necessary for the industrialised countries to work closely together.

The Prime Minister said that he agreed with the diagnosis of Chancellor Schmidt and had been heartened by what President Ford had said. He had been struck by the latest figures of car production in Detroit which were often a key indicator. In the case of Britain, for thirty years our biggest restraint had been the balance of payments and the present Government had inherited a deficit of £4,000 million before even the oil price rise hit us. This situation had been dramatically improved. We were now in surplus of our non-oil deficit by £1,000 million and we were covering one third of our oil deficit. We had experienced horrifying inflation figures and they were still bad. But the Government's anti-inflation policy commanded strong support in Parliament and in the Unions, and the inflation figure was now falling. We were right on course to reduce it to 10 per cent by next autumn and to single figures by the end of 1976. Our savings ratio was high and we had maintained and indeed increased our proportion of world trade at a time when the total was falling. The world recovery seemed to be getting under way, but he hoped the stronger countries would be flexible in their response. He was worried that there might be a hiccup in the recovery of those whose economies were so large and so causal in the degree of their influence. These countries should be ready to act quickly if the recovery seemed to be stagnating. Like Germany, our own public sector deficit was at a record level. He appealed to other countries not to attempt to reduce theirs too fast. This would damage not only their own recovery but that of other countries. In Britain, North Sea oil was now flowing and in 1976 the one oil field already producing would add £700 million to the balance of payments. We had potential reserves of £200,000 million: indeed our proved off-shore reserves were more than 50 per cent bigger, on a comparable basis of assessment, than all U.S. off-shore reserves, including Alaska. By 1980 we should be producing 90 per cent of all the oil produced in the EEC and 45 per cent of its total energy. Britain was adopting a cautious approach to general reflation and would face a hard winter. We had introduced a number of job creation measures and were placing increasing emphasis on restructuring and a micro-approach to the problems of industry and employment. The Government's new industrial strategy had been endorsed at a recent meeting with both sides of industry. This was much more appropriate in our circumstances than undertaking a premature general reflation. Indeed, the Chancellor of the Exchequer had explained recently that £75 million so invested was producing as many jobs in three years as classic reflation of £1,000 million by tax relief or increased public expenditure, and was producing these jobs in about a quarter of the time. However, when he talked about providing help to industry on a micro-basis, he did not have it in mind helping lame ducks or a protectionist approach, but rather supporting industries in the recession which were basically competitive both at home and abroad. In conclusion he wished to repeat that he was not convinced that a rapid recovery was taking place and he was

worried lest the recovery be choked off. He urged the stronger countries to watch the situation anxiously, and not to try to cut their budgetary deficits prematurely.

Mr. Miki, whose initial remarks were not heard through the translation system, said that Japan's rate of inflation had been terrible and that its reduction had been their main target. He hoped that it would be down to single figures next year. Unemployment in Japan was running at a rate of only 1.9 per cent but this figure was to some extent misleading since under Japanese law it was difficult to dismiss redundant workers: large numbers of people were thus idle but not shown in the unemployment figures. The Japanese Government had introduced a considerable measure of reflation. Their rate of growth this year would be 2.2 per cent: and next year it should be of the order of 5-6 per cent. The Japanese recovery was thus proceeding smoothly, but unless other countries recovered at a more or less similar rate it would be impossible to expand world trade on which everyone depended. There was a psychological factor in all this which was very important. He was aware of the different economic circumstances of the participants to the Rambouillet Conference but he thought they should all set themselves a target of realising 5 per cent growth next year.

Signor Moro said that while everyone was affected by the crisis the consequences of the recession varied in the participating countries. Similarly, while all of them had undertaken some reflation, some had made more progress than others. He hoped that the progress of the stronger countries would encourage and help the Italian recovery. He agreed that protectionist trends should be resisted and that there should be an impulse to accelerate the GATT negotiations. He agreed that there should be greater economic co-operation between the participating countries and in particular between their central banks. The balance of payments gap in Italy had been much reduced and all countries should be concerned to make similar progress. He could not however pretend that Italy had overcome her economic difficulties. There was concern over unemployment, and both consumption and GNP would drop by about 3 per cent this year. If however his Government could reduce both their balance of payments deficit and the rate of inflation, they could undertake some measure of reflation and secure an increase of 2 per cent of GNP in 1976 with an external deficit similar to that of this year. This admittedly was an unambitious target but it was necessary to proceed gradually. The Italian Government was doing what it could but its efforts had to rely on the support of a world recovery.

President Giscard said that he did not intend to dwell extensively on the French economy - it had features of both the Japanese and the German situations and could be said to be "Nippo-Germanic" - but would prefer to comment on the situation as a whole. President Ford had been very optimistic about the United States economy. If he was right, this contrasted with the situation in Europe and Japan where growth seemed more doubtful. The Governments concerned had run budgetary deficits, yet growth had been negative: and thus the economists had been proved wrong. They were continuing to pursue expansionist policies but these faced two threats. The first was that the countries which traditionally bought their exports were themselves in bad shape, and their situation was bound to deteriorate. The second threat lay in the budgetary deficits themselves. It would be impossible to go on with them: indeed if a continuing impact were to be made by this means the deficits would have to go on being increased. Accordingly, when the situation improved, the deficits would have to be reduced and this in turn would put a brake on growth.

It seemed to him therefore that strong growth of a non-inflationary kind was unlikely: and this would mean a continuing problem of significant unemployment.

He did not wish to be pessimistic. If the United States economy did in fact recover strongly, there would be a slow improvement in Europe. But if United States growth was short-lived or slackened off, then the recession might start all over again. From this he drew certain conclusions. The first was that they should aim for, and talk about, moderate growth. Big growth was impossible and it would only create subsequent disillusionment to imply that it was. Secondly, we should take what steps we could to avoid further balance of payments troubles arising from new oil price increases: and the meeting would be discussing this on the following day. Thirdly, if things turned out worse than was hoped, then the industrialised nations would have to face up to the consequences together. He thought that the message that would be given from Rambouillet to the rest of the world would be very important. The participants should make it clear that they were in favour of the expansion of trade. They should also make it clear that they wanted to move towards a more stable exchange rate system: otherwise - and perhaps particularly if the United States recovery were much stronger than that of Europe - there could be disturbances which would be in no-one's interest. Finally, they should take a bold stand about financing the deficit of the poorest countries. He suggested that the Ministers of Finance should meet early the following morning to see what form could be given publicly to these suggestions.

The Chancellor of the Exchequer said that President Ford had said that the political effect of high unemployment was less than had been expected. This was true, but we could not rely on such stability continuing indefinitely. When men had been out of work for a long time, or if there were serious regional pockets of high unemployment, it could lead to very serious political consequences. It was also relevant that even if output increased significantly next year, it would be slow to affect employment. There was currently a good deal of short-time working or concealed unemployment which would have to be taken up at the beginning of the recovery before new vacancies were declared.

President Ford then asked whether participants favoured a communiqué at the end of the meeting. If so, not only the Finance Ministers but other technicians should be involved in the following morning's meeting.

President Giscard said that he favoured a declaration rather than a communiqué and that it should convey broad intentions which could more appropriately be drafted by Ministers than technicians. He repeated his suggestion that the Finance Ministers should meet early the following morning.

President Ford said that he did not object to this. The Carlton Group meeting in London on 11/12 November had however produced a very good draft and this should be used as a foundation for the Finance Ministers' discussions.

/The Prime Minister

The Prime Minister said that emphasis should be placed in the declaration on the human problems of unemployment.

It was agreed that the Finance Ministers should meet at 9.30 the following morning and see what progress could be made on a draft declaration about the economic and monetary issues. This would be based on the Carlton Group draft but would also take into account the afternoon's discussions.

It was also agreed that comment to the Press during the meeting should be kept to the minimum. It would be appropriate to list only the subjects which had been discussed and to say that the atmosphere was frank and fruitful. There was of course nothing to stop an individual Head of Government from disclosing the gist of his own introductory remarks.

The meeting adjourned for dinner at about 8.30 p.m.

PART 3 ends

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18 November 1975