



10 DOWNING STREET

*From the Private Secretary*

SIR ROBERT ARMSTRONG

LONDON ECONOMIC SUMMIT: KEYNOTE SPEECH

BR

I regret that the Prime Minister has not yet been able to see the first draft of the keynote speech which was annexed to your minute of 15 May - and I am not sure that she will be able to deal with this before the weekend. But I am confident that she would like you to seek comments from Departments, as you propose, and to submit a revised draft for consideration at her meeting on 23 May.

I am sending copies of this minute to Peter Ricketts (Foreign and Commonwealth Office), David Peretz (HM Treasury) and Callum McCarthy (Department of Trade and Industry).

COPIES

16 May 1984



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MR COLES

London Economic Summit: Keynote Speech

The Treasury have prepared a first draft of the speech which the Prime Minister would wish to make when she opens the plenary session of the London Economic Summit on the afternoon of Friday 8 June. I attach the draft herewith.

2. We were asked to circulate this in time for the Prime Minister's meeting which is now to be held on 23 May, and I do not suggest that it should be discussed at tomorrow's meeting. But those who are attending tomorrow's meeting may like to have the draft in their minds and folders at this stage.
3. If the Prime Minister thinks, as I do, that this draft provides a good basis on which to work, I suggest that comments should be sent to me by midday on Monday 21 May, so that a revised draft can be circulated for consideration at the Prime Minister's meeting on 23 May. After that, the Prime Minister will no doubt want to work on the draft herself.
4. I am sending copies of this minute and of the draft Keynote Speech to the Private Secretaries to the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer and the Secretary of State for Trade and Industry.

RA

ROBERT ARMSTRONG

15 May 1984

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Draft of 14 May 1984DRAFTKEYNOTE SPEECH

Welcome to London and to this opening plenary session of our Economic Summit meeting. Not quite all the Ministers here today were also present at our meeting in Williamsburg last year. Of the Heads of Government I particularly welcome Signor Craxi as the only newcomer since Williamsburg. I hope that the experience we have already had of talking together will help us to reach good understanding during these two days.

2. The recovery of the world economy has made welcome progress since our meeting last year. It is broader, and the benefits can now be seen to have been spreading. We shall want at this meeting to focus on how to sustain the recovery over the coming years, and to give particular attention to problems which still loom ahead of us.

3. At successive recent Summits we have emphasised the need to discipline monetary growth and public expenditure, as the only foundation for a recovery without renewed inflation. The recovery can be sustainable only if we can achieve it on that basis. This is not an easy or a comfortable strategy for any of us. But we know that the freedom, strength and prosperity of our societies could not survive a continuation of the lax policies, the inflation, the indulgence of the previous decade.

4. At Versailles we were meeting at what can be seen in retrospect as the nadir of the recession. Last year we were



able to welcome the first signs of recovery. Today we can say with more confidence that the recovery is strengthening and its effects are spreading widely, and that the shape of the recovery, based on the strategies we have adopted, gives good grounds for hoping it will be sustained.

5. That must surely be the first message to go out from this Summit meeting: the strategy is the right one; it is working; and we intend to stick to it.

6. Among ourselves we need to acknowledge that there is still much to be done. All our countries, in different degrees, have made progress in reducing inflation. But we have not got it out of the system yet. There are many pressures which could spark it off again. We must all be conscious of worry - for our own economies and even more for the prospects of many debtor countries - over the rising level of interest rates, especially in the United States. We cannot credibly claim to have mastered inflation and set the basis for sustained recovery while the markets are holding interest rates so high.

7. A basic problem for all of us is the need to restrain public expenditures in the face of widespread pressures and against the easy expectations which have unfortunately built up in past years and which are still powerful. We face heavy commitments and the threat of rising demands for social security provisions in most of our countries. The real humanitarian needs must not be denied. But none of us can afford more than we can effectively earn. We need to establish and keep limits. And we need to curb expectations.



8. This is another - a sterner but very necessary - message we need to convey to all our peoples.

9. Perhaps the largest task which faces us in our own economies is that of adapting our societies to a new pace of change. I would like to suggest some particular areas on which we might focus our discussion.

10. It is a striking comparison between our countries that progress in reducing unemployment has been more rapid in the United States and Japan than elsewhere, even allowing for the relatively early recovery in those countries. Could this be linked with the fact that those are the two countries in which the claims of public expenditure pre-empt a much smaller proportion of total national output than in other countries? It seems also that, especially in European countries, there is less enthusiasm for change, and there is certainly a legacy of unhelpful habits, practices and government measures and laws - many of them designed to protect employment, but now constituting obstacles to the creation of new jobs.

11. I hope we could explore together some of the ways in which we can promote a more rapid acceptance of change - indeed a welcome for it. How can we stimulate a livelier industrial response to technological change and new market demands? How can we remove obstacles and give positive encouragement to the mobility of labour and flexibility in its use? Many of us have adopted measures to encourage innovative small businesses; should we not also discourage those measures which prop up declining industries? We cannot afford short-term horizons.



12. This accent on change is another message I would like to send out strongly from the London Summit.

13. A particular area of distortion is that of international trade. We must surely face changes here in at least two interests: giving market opportunities to developing countries to earn the means to pay their debts; and ultimately strengthening the dynamic basis of our own economies.

14. Many of the same conflicts are mirrored in all our countries: short-term preservation of employment against new and growing opportunities for the future; protection of this or that sectoral interest against the wider conditions and opportunities of the economy as a whole. The backward-looking pressures are understandably at their strongest when economic prospects are depressed. Now that the recovery is stronger, I hope we might add to its future strength by committing ourselves to rely less on export subsidies and other assistance which distorts trade, to shelter less behind protection of trade in goods and in services, and to remove distorting limitations on our capital markets. I hope we can encourage specific and practical moves in these directions.

15. Finally we must all be conscious of the world outside our own countries and economies. Many developing countries have been particularly severely affected by the recession, and lack the resilience of resources for spontaneous recovery. It is clear that the benefits of our own recovery are spreading to them in a rapidly strengthening

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revival of world trade. But more needs to be done, and we must convey a message which shows that we recognise this and will play our part.

16. The developing countries are a very widely varied group, and their economic experience in very recent years has shown remarkable differences. Some of the poorest in Africa have suffered not only recession but a sequence of years of drought. Some, particularly in Asia, have survived the recession robustly and shown a capacity to generate their own growth without running into unmanageable debt.

17. We need to maintain adequate flows of resources to these countries, including official and multilateral aid. We should also use our influence to encourage and give help with practical measures in those countries to conserve resources, to enhance their own production of food and energy, and to create conditions in which populations are more stable.

18. The group of major debtors presents particular problems. I am sure that we must reaffirm the strategy for dealing with these problems which we have developed since the autumn of 1982. The central need is for these countries themselves to take as promptly as possible measures of adjustment which are in any case ultimately unavoidable. There are no easy or painless solutions. But we can chart some directions in which creditors can help, debtor countries can be enabled to ease their problems, and the problems themselves be shown to be manageable.



19. I suggest we should pool our ideas, and I offer you some examples:

- what can be achieved is seen, for example, in South Korea and Indonesia - two years ago on all our lists of potentially dangerous cases, but now no longer; and in Mexico - whose strenuous efforts in cooperation with the IMF and other creditors are beginning to restore confidence;
- where debtors are beginning to restore confidence, creditors may well be willing to contemplate longer-term restructuring of debt, rather than hand-to-mouth rescheduling;
- the burden of rising interest rates is a severe threat: I welcome the indications that commercial creditors are considering possible ways of limiting the immediate damaging impact;
- many debtor countries possess substantial assets of natural and industrial resources; many potential foreign investors would be interested in a participating equity stake in those resources; the desire to retain domestic control is understandable, but the financial benefits of allowing such investment could greatly ease the burdens of debt - and it is worth noting that the countries which have welcomed such investment have tended to be among those developing most rapidly;



- for the longer-term, we should surely seek all ways of encouraging direct equity investment: it is healthier than short-term bank finance, it may well be more readily available than such finance in the future, and it brings undoubted advantages of management and technological expertise and world-wide trading connections;

- again for the longer-term, should we not look to the World Bank Group of institutions to play a larger role, to gear their lending to performance and to act as a catalyst to attract private capital.

There is no escape from handling individual problems separately - every country is different. But we must show our joint concern and show that we have a framework for action over the years ahead which gives hope to the debtor countries of overcoming their problems and restoring confidence for the future.

20. [Conclude with a suggested order of discussion].