

SUBJECT re 7/7/5

File 16



10 DOWNING STREET

From the Private Secretary

MR. HATFIELD
CABINET OFFICE

ECONOMIC SUMMIT

I should record some of the points made at the Prime Minister's briefing meeting today which was attended by the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer, the Minister of State, Home Office and Officials.

KEYNOTE SPEECH

2. There was some discussion of the keynote speech which the Prime Minister will deliver to the Economic Summit on the morning of 8 June. The latest draft is attached to this minute. The Chancellor of the Exchequer kindly undertook to look at the draft over the weekend and let the Prime Minister have his observations. I should be grateful for any other comments as soon as possible on Monday, 4 June.

DECLARATION ON DEMOCRATIC VALUES

3. The meeting considered that it would be undesirable to exaggerate the importance, in public presentation, of this document. In particular, the alternative description of it as "The London Charter" should not be used (unless the attention given to the document by the media appeared to justify using this more weighty title after the event).

TERRORISM

4. The meeting considered a draft of the proposed press statement on international terrorism. I annex to this minute the latest draft as agreed between departments. Unless any further inter-departmental discussion is required I should be grateful if you could arrange for this text to be sent to all holders of briefs for the Summit and substituted for the present Annex E of the Steering Brief.

5. The meeting was informed that Foreign Ministers would discuss the question of terrorism, including the proposed statement, on the evening of 7 June, with a view to submitting their conclusions to Heads of State and Government on 8 June. The Foreign and Commonwealth Secretary said that contacts with

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other Foreign Ministers in the last few days had shown that there was less interest in what was said publicly about terrorism at the Summit than in the practical content of the discussion.

NORTH/SOUTH

6. The meeting agreed that we should do everything possible to stop talk of a second CANCUN gaining ground. But, in view of our relations with India, it was desirable to persuade others to take the lead.

FINAL PREPARATIONS

7. I should be grateful if you could bear in mind that the Prime Minister will be devoting much of Wednesday, 6 June to reading the briefs for the Summit and in other preparations. I should therefore be most grateful if any further amendments to the briefs could reach me by the evening of 5 June.

8. I am copying this minute to Mr. Ricketts, Mr. Peretz, Mr. Taylor and Mr. McCarthy.

A. J. COLES

1 June 1984

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(ARTAW)

ECONOMIC SUMMIT

Keynote Speech

Warm welcome to London - and to this opening session of our Economic Summit.

May I extend a special welcome to Signor Craxi, the only head of delegation who was not present at the very successful Summit held in Williamsburg under President Reagan's chairmanship last year.

We all have much experience of talking together. I am confident that that will enable us to achieve, in the next two days, a great measure of common understanding and agreement.

The recovery of the world economy has made welcome progress since our meeting last year. We shall want at this meeting to concentrate on how to sustain the recovery over the coming years and how to tackle the problems which remain.

At recent Summits we have agreed that our objective is recovery associated with the confirmed reduction of inflation. We have further emphasised the need, in pursuing that aim, to discipline monetary growth and public expenditure.

The recovery will be sustained only if we pursue it on that basis. This is not an easy or 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 undisciplined and indulgent policies of the last decade.

Looking back we can now see that when we met at Versailles we were at 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, that 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.

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.

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 high level of world interest rates.

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 the past years and which are still powerful. We face heavy commitments and 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 or prudently borrow. We need to establish and keep limits. And we need to curb expectations. This is another - a sterner but very necessary - message which we need to convey to our people.

In the world outside our own countries and economies a pressing problem - currently the subject of considerable concern - is that of debt. In our discussions we shall need to consider our strategy for dealing with the groups of major debtors. The central need is for these countries themselves to take as promptly as possible measures of adjustment. Such measures are in any case ultimately unavoidable. There are no easy or painless solutions. But we can chart some directions in which creditors and international financial institutions can help, in which debtor countries can be enabled to ease their problems, and the problems themselves be shown to be manageable. And we must give them hope that their efforts will not be undermined by high interest rates.


In contrast to earlier times, we are fortunate in possessing effective international institutions. Through the Summits and many other meetings we have well established means to develop a common understanding of the world's problems and to achieve the international cooperation needed to resolve them.

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 restore confidence;
- where debtors are beginning to restore confidence, creditors may well be willing to contemplate longer-term rescheduling of debt;

- many debtor countries possess substantial assets of natural and industrial resources; many potential foreign investors would be interested, particularly if there were an agreed international code of investment protection, 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.



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.

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.

Perhaps the largest task which faces us in our own economies is that of adapting our societies to an unprecedented pace of change - unprecedented both in terms of the quantity of new jobs which needs to be created as traditional industries have declined and in terms of the flexibility needed to take advantage of the opportunities provided by rapidly developing new technologies.

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. This may have lessons for the rest of us. Is there a link with the fact that those are the two countries in which the claims of public expenditure pre-empt a relatively smaller proportion of total national output? Do we need to give more scope to private industry and enterprise to promote the process of adaptation to change?

It seems that in the European countries, there is less enthusiasm for change. 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.

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.

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

We need to face the challenge of change also in international trade - both to give market opportunities to developing countries to earn the means to pay their debts: and, ultimately, to strengthen the dynamic basis of our own economies.

We are accustomed to conflicts of interest in our own 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.

This recognition of the need for change must be tempered by a clear indication of concern about the ways in which industrial societies deal with the national and international impact of industrial processes on the environment. As you will know from the material you already have, I have made a specific proposal for further work on this by the Versailles Working Group on Technology, Growth and Employment.

(Conclude with a suggested order of discussion).