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From the Secretary of the Cabinet and Head of the Home Civil Service

Sir Robert Armstrong GCB CVO

Ref. A084/1689

11 June 1984

Dear Geoffrey,

--- I attach a first draft of a statement for the Prime Minister to make in the House of Commons on the London Economic Summit. The draft draws on material prepared before the weekend by the Treasury. It lacks a section on the political matters discussed at the Summit: I understand that Julian Bullard has that in hand.

I am sending copies of this letter and of the draft to Crispin Tickell, Julian Bullard and Robin Gray; and I should be grateful for comments by telephone no later than 5.00 pm today.

Yours ever
Robert

J G Littler Esq CB

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London Economic Summit: Draft Statement

With permission, Mr Speaker, I should like to make a statement about the Economic Summit which was held in London from 7 to 9 June. Heads of State or Government of the seven principal industrialised countries were present, accompanied by their Foreign and Finance or Economic Ministers. The European Community was represented by the President of the Commission and Monsieur Ortoli.

2. I have placed in the Library of the House copies of the Economic Declaration issued at the end of the meeting, and of declarations issued during the meeting on democratic values, on East-West relations and on terrorism. I have also placed in the library a copy of a statement which I made, as chairman of the meeting, about our discussions on the Iraq-Iran conflict.

3. Although the primary purpose of the meeting was to discuss economic issues, on this occasion as at earlier summits we took the opportunity of discussing a number of political issues.

4. It is one of the strengths of the free democracies of the Western world that their leaders can meet to exchange views frankly on the world political and economic problems that face them all, and can bring to that exchange of views a variety of different viewpoints, without calling in ^{their shared commitment to} question ^{the} fundamental values by which their countries and their systems of government are sustained. It is nonetheless salutary sometimes to restate those fundamental values and

re-establish them in our own minds and in the minds of the peoples to whom we are responsible. It seemed to all of us at Lancaster House last week that our meeting there, beginning the day after the commemoration of the D-Day landings in Normandy, was such an occasion. The declaration on democratic values demonstrated for all the world to see that those who were enemies at that time are now firm friends and allies, united in the commitment to peace with freedom and justice with all that that entails.

5. [Political module]

6. In our discussion of economic matters we concentrated on five main issues:

First -

Economic recovery is now an established fact in the seven Summit countries and the other countries in the European Community, thanks to the firm efforts made to bring down inflation. We need now to sustain it, and spread its benefits, not only within our own countries but also to the developing countries. That will depend on our continuing and where necessary strengthening policies to reduce inflation and interest rates, to control monetary growth and reduce budget deficits.

Secondly -

An essential element in this is the restraint of public expenditure. The pressures for increases in public spending are constant and insidious, not least in the field of social insurance. We

have to establish and hold to the levels of what can be financed by tolerable levels of taxation on the working population.

Thirdly -

We need sustained growth to create new jobs and bring down unemployment. To make the most of our opportunity, we must make sure that the industrial economies adopt and develop flexibly in response to demand and to technological change.

Fourth -

We continue to face difficult problems in the management of international debt. These problems have implications not only for the debtor countries but also the international banking system, and will be easier to resolve if world recovery is sustained and policies are followed which are conducive to lower interest rates. We have a basic strategy within which we have so far been able to deal flexibly with situations that have arisen, case by case. We agreed at Lancaster House that ^{there is} no alternative to this approach because each case is different. But we also agreed that the strategy we have been following will continue to enable the problems to be managed. We identified a number of aspects of the strategy for further attention:

(a) Debtor countries will need to make - as some are already making - efforts to adjust their economies. When these efforts are

successful, we should be prepared to encourage longer-term rescheduling of their debts.

(b) The role of the International Monetary Fund will continue to be central. We should like to see even closer co-operation between the Fund and the World Bank in this area.

(c) Developing countries should be encouraged to open their economies to increased flows of direct investment from the industrialised countries: such investment brings with it not only long-term resources but also industrial and management expertise.

(d) In the interests of greater stability, we should encourage the substitution of longer-term finance, both direct and portfolio, for short-term bank lending to developing countries.

And Fifthly -

Sustained world economic recovery both requires and should permit specific and practical moves to increase and extend international trade. The Summit meeting urged all countries to reduce barriers to trade and make renewed efforts to liberalise and expand international trade in manufactures, commodities and services. We endorsed the moves to accelerate completion of current trade liberalisation programmes, and agreed to consult

GATT partners with a view to decisions at an early date - which means, I hope, by the end of 1985 - on the timing and objectives for a new negotiating round.

7. Mr Speaker, I said before the Summit that those who look to these Summit meetings for a series of specific agreements on particular actions must expect to be disappointed. That is not their purpose. Their primary purpose is to enable the leaders of those seven countries and of the European Community to come together to discuss economic problems, proposals and opportunities/ ^{and set general course directions.} The London Economic Summit enabled us to achieve not only closer understanding of each other's positions and views but also a large measure of agreement on the basic objectives of our respective policies. It was a workmanlike, constructive, friendly and thoroughly worthwhile meeting. I should like finally to record my gratitude and that of the Government to all those who worked and contributed to make that success possible.

11 JUN 1984

