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10 DOWNING STREET

From the Private Secretary

18 March 1981

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Dear John

As you know, Mr. A.W. (Tom) Clausen, President of the Bank of America and President-Designate of the World Bank, called on the Prime Minister at 1700 hours this afternoon. He was accompanied by Mr. McMillen. The Chancellor was also present. The half hour's discussion was generalised, but showed much in the way of common approaches to current problems.

The Prime Minister referred to the recent falls in US prime rates. Mr. Clausen said that these had gone faster than some had forecast. He hoped to see a steady decline in interest rates in preference to a seesaw situation. The US economy faced severe problems after a four-decade malaise, during which there had been no real attention to the supply side. There was now a real need to rebuild personal savings and capital formation as part of the move to reduce inflation. President Reagan faced major political difficulties in this field but he had made a splendid start. Mr. Clausen hoped that he would stick to his policies. The importance of the US economy to the world economy as a whole made it essential that the US should not be running at double-digit inflation. But the new Administration faced the problem of dealing with voter expectations.

The Prime Minister commented that she and the Chancellor had faced criticism because they were holding to the Government's declared strategy. They were only 22 months into their term of office and in that time had had to cope with a world recession brought on by further massive increases in oil prices. These had withdrawn purchasing power into the hands of countries who were not in a position to feed back into the world economy the right kinds of goods and services. She hoped to see an upturn later in the year. Two-and-a-half years was a long period of austerity, but given the normal five year international cycle there were grounds for hoping that most of the recession was behind. Mr. Clausen said that he wished he could share this belief, but that his own instinct suggested that there would be greater inflation and volatility in the 1980s than in the 1970s.

The Chancellor said that the Prime Minister had argued at the Venice Summit for a move away from the North/South concept to a more triangular view of the world economy involving OPEC. The Prime Minister accepted that the OPEC countries could have some restraining influence on the rhetoric of other developing

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countries in relation to the capitalist economies. But the oil producers were of great importance in the current international economy, and the Bank and Fund had a major role in further recycling of oil money. In present circumstances, this could only be to credit-worthy countries. There were continuing risks of major difficulties in the banking system because of the exposed position in some of the poorest countries. Mr. Clausen said that the private sector banking system had, for the most part, handled the ^{first} massive recycling job. Some commercial banks were now reported to be applauding his arrival at the World Bank, on the grounds that he was a commercial banker who would bail out the over-stretched commercial banks. He emphasised that he had a track record as a conservative banker with a highly respected conservative bank. He took the view that he was going to bail in the commercial banks: he saw scope for much increased co-financing.

Mr. Clausen said that, in accordance with his own background, he saw it as essential to preserve the basic principle that the World Bank group operated on banking judgements. Politicisation of the Bank along UN lines was unacceptable. He personally saw mankind's survival struggle as the basic issue for the present generation. The wealthy countries - both industrialised and oil producing - had to assist the struggle in the poorer countries. The multinational institutions had an important role to prevent a situation where all potential donors concentrated on their own favourites. But the Bank must remain accountable to those who financed it. The Chancellor commented that the Fund also had a tremendous role to play, which was well demonstrated by its reentry to Jamaica. There were lessons to be learned about the way in which the institutions approached these responsibilities. If their tone was too Western and patronising, even good advice would be rejected.

The Prime Minister said that there were two overriding issues in relation to the World Bank. On the first, in respect of efforts to bring UN-style politics into the Bank, the British Government and Mr. Clausen shared the view that this had to be resisted if the Bank's role was to be preserved. The second major issue for the UK was whether we needed to put such a great proportion of our aid through the World Bank and the multilateral institutions. She stressed that she regarded the Bank's role as of great importance. In particular, it could bring together financing for major capital works in some countries in a way which no bilateral donor could match. But the UK was constantly under pressure for further bilateral aid. Every visiting Head of State bid for more, even where existing programmes were substantial. Bilaterally financed projects were visible and a source of credit from the receiving country. Donor contributions to multilateral institutions produced no thanks and/or credit from recipients. The scale of our contributions to the Bank group was based on our economic position at the founding date. Others, whose economies were relatively weaker then, were now in a position to put much higher proportions of their aid into bilateral programmes. Mr. Clausen said that he was in the UK, in part, to say thank you for continued British support for the Bank group. A number of major donors had raised with him questions about the relative visibility of bilateral and multilateral aid. He invited suggestions on how donors could get greater credit. The Prime

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Minister said she favoured continued emphasis on capital projects which were themselves much more visible. Inauguration of completed projects could receive much greater emphasis and publicity. The Chancellor suggested that the source of Bank flows should be more clearly identified to recipient countries. Mr. Clausen said that there was scope for more co-financing perhaps with relatively small proportions of Bank finance, thus making more widespread use of the great reservoir of professional expertise available to the Bank.

Mr. Clausen said that it would be easier for the Bank to resist UN attempts to give directions if there were continued strong support for the Bank from the industrialised countries. There was no denying the pressure from the Third World. But the World Bank was first a bank, and would have to protect itself in the market-place.

I am sending copies of this letter to Roderic Lyne (Foreign and Commonwealth Office), Susan Unsworth (Overseas Development Administration), David Wright (Cabinet Office) and Tim Allen (Bank of England).

Yours ever

Mike Pattison

A.J. Wiggins, Esq.,
HM Treasury.

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CEFCO
Treasury
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Prime Minister
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BANK OF AMERICA

A.W. CLAUSEN
President

March 26, 1981
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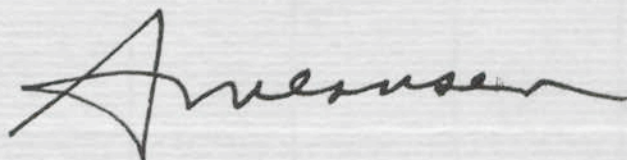
Dear Prime Minister Thatcher:

Thank you for taking time to see me and my colleague, Mont McMillen, on March 18th. You and the Chancellor were most generous in giving me the opportunity to share some of my views on the problems the world is facing.

Your comments regarding the importance of the World Bank were reassuring to me as I prepare to assume my new responsibilities as head of that institution. The continuing support of your country is essential to the success of the World Bank as we move into the difficult decade of the eighties.

Again, my appreciation for meeting with us.

Sincerely,



The Rt. Hon. Mrs. Margaret Thatcher
Prime Minister
10 Downing Street
London SW1, England