



Pl. copy to:-
 Mr. Walter
 Sir A. Saran.

✓ cc N.O. ②
 cc BI

Treasury Chambers, Parliament Street, SWIP 3AG
 01-233 3000

Prime Minister

To note.

M

A.J.C. 15/3

FOREIGN AND COMMONWEALTH SECRETARY

US ECONOMY AND WILLIAMSBURG SUMMIT

Thank you for your minute of ^{in box} 8 March. We ought perhaps to review progress after the meeting on 16-18 March of Summit Personal Representatives, but I thought I should let you know at once that I am a little worried by some of the ideas you report from George Shultz and Don Regan.

2. Taking first the four main elements you ascribe to George Shultz:

- if the creation of an adequate level of global liquidity means more world-wide monetary expansion, I see a good deal of objection to it. With the increases in IMF quotas and GAB resources we have already substantially expanded the credit resources available to countries in balance of payments difficulty. The prospect of a very large US current account deficit this year is likely to add to the liquidity of the rest of the world. The case for still more global liquidity at this juncture has certainly not been made;
- preserving open markets is an admirable objective on which I comment further below;
- under the heading of improving the international monetary system, I would gladly include what we have already done in the IMF Interim Committee, and what I hope we may be able to do on exchange rate volatility in the longer run (and also on interest rates, which you mention);



- I agree also that political stability of developing countries needs to be strengthened, and the effective handling of debt situations, as well as the maintenance of flows of aid and credit, have an important part to play, but I would be chary of going very far beyond this in the area of financial support.

3. Turning now to the points which, according to the telegram from San Francisco, Regan would like to pursue at the Summit:

- the US interest in countering protectionism could be very valuable. I understand that the OECD Secretary-General is hoping to make this a major issue at the Ministerial Council in May. I think we should work on it ourselves, and aim to develop a practical proposal, which should as a minimum involve self-restraint by the leading industrial countries at the Summit, but should preferably go wider;
- it is good that Regan is interesting himself in possibility of expanding IBRD, and doing more through the IDA: did you get any impression whether he expects congressional difficulties to diminish?
- at all my recent meetings with Regan, he - and our German and Japanese colleagues - have been firm in rejecting the idea that industrialised countries should take special measures to stimulate their economies in order to act as the locomotive of recovery. I am sure that this rejection is right: the preferred alternative is a recipe for rekindling inflation.

4. I should like to reflect on the suggestion of a joint preparatory meeting of Summit Foreign Ministers and Finance Ministers. It would be difficult to mount such a meeting without considerable publicity.



But it might I suppose be possible for some of us to get together reasonably discreetly in the margins of the OECD Ministerial Council, if we at that stage felt the need for further and special preparation.

5. Let's take stock when we have Sir Robert Armstrong's report of his talks in California.

6. Copies of this minute go to the Prime Minister and to Sir Robert Armstrong.

A handwritten signature in black ink, appearing to be "G. Howe".

GEOFFREY HOWE

16 March 1983

USA : Economic Situation

Pt 2