



FROM: J O KERR

DATE: 31 May 1983

cc PS/Chief Secretary  
 PS/Financial Secretary  
 PS/Economic Secretary  
 PS/Minister of State (C)  
 PS/Minister of State (R)  
 Mr Burns  
 Mr Littler  
 Mr Unwin  
 Mr Cassell  
 Mr Kemp  
 Mr Carey  
 Mr Lavelle  
 Mr Odling-Smee  
 Mr Hall  
 Mr Bottrill  
 Mr Peretz  
 Mr Ridley  
 Mr Hague

A.S.C. 1/6.  
 p.a.

Mr Scholar - No.10 ←  
 Mr Ingham - No.10  
 Mr Fall - FCO  
 Mr Hatfield - Cabinet Office

MR MIDDLETON

... I attach the text of the Chancellor's opening statement at the Press Conference which he gave, with Mr Pym, at Williamsburg after the Summit.

A handwritten signature in dark ink, appearing to read 'J.O.K.' with a flourish.

J O KERR

STATEMENT BY THE CHANCELLOR OF THE EXCHEQUER

You have heard President Reagan's summary of the conclusions of this Summit and seen the statement "Strengthening Economic Cooperation for Growth and Stability".

Economic cooperation has been an important underlying theme in this Summit. Of course there are differences in the precise circumstances of individual countries, and differences of emphasis among Summit participants on particular subjects. But the really striking feature of our discussions here has been the extent to which we share a common view and a common approach to the problems of managing our economies, and the emergence from recession.

This reflects in particular 2 developments over the past six months or so, whose impact has been felt increasingly at successive meetings in the framework of the international financial institutions, and now here.

First: Growing confidence in the recovery, which is now clearly seen to be gathering strength.

Secondly: A growing understanding that, if recovery is to be maintained, inflation must be kept down.

The old demand to know where growth is coming from has not been heard here. It is seen that growth can come, and is coming, from the gradually renewed vitality and confidence of business and industry in the economies which have been most successful in reducing inflation.

The demand for locomotive growth by the stronger economies to support the weaker ones has similarly been absent here. No one, at any stage in our discussions here, has suggested that the Governments of the economies which have made the most headway towards recovery - and they are acknowledged to be the US, Germany, Japan and the UK - should risk the gains they have made, by resorting to artificial and unsustainable boosts, with their inevitable inflationary consequences. And none of these countries is proposing to make that mistake. Indeed other countries are now seeking the same route we are taking to a healthier economy.

Far from looking for artificial stimulative action the Ministers gathered here have emphasised the need to keep public deficits down. This has been unanimously endorsed. Attention has focussed on the US fiscal deficit. We are all conscious of the importance of the low level of inflation achieved in the US and the recovery now developing here. But we know from our own experience that continuing large fiscal deficits make it very difficult to keep growth of money supply, and inflation, under control without recourse to high interest rates. High US real interest rates of course affect markets worldwide.

So we have been urging on our US colleagues the need for them to be able to show, in the outcome of their difficult dialogue with Congress, that they are bringing their future fiscal deficits under effective control. They have shown here that they share our concern. No one at Williamsburg has argued that deficits are good for you. The lesson of the history of the seventies is that they aren't; and that lesson is well understood by all round the Williamsburg table. To argue otherwise - as some in the UK still do - would be seen here as grossly irresponsible.

The document on "Strengthening Economic Cooperation for Growth and Stability" could not have been written a year ago. It reflects very forcefully the impact of experience and of the debates among us in recent months. It has been ~~unanimously~~ agreed as a framework for our future discussions together and for the development of policy in each of our countries. In this way Williamsburg has given additional authority and impetus to the development of what is known as "Multilateral Surveillance" - a process, formally initiated at Versailles a year ago, which helps Summit countries, and particularly the 5 whose currencies constitute the SDR, to assess - and take greater account of - the effects of their policies on each other, and on the world economy as a whole. I hope that we shall go on reinforcing this process.

A key feature of the text on "Strengthening Economic Cooperation" is its stress on the value of consistent medium term policies. This has been demonstrated in the UK by our commitment to a medium term financial strategy. The text focuses clearly and strongly on disciplined monetary and fiscal policies, on compatible exchange rate policies, and on productivity and employment policies aimed at vigorous, adaptable and innovative business and industry.

I ought briefly to highlight 3 other aspects of the President's statement.

First, trade. The collective commitment - or rather recommitment - to fight protectionism is most important. A failure to halt protectionism could slow the pace of world economic recovery. Indeed, as the recovery strengthens, we need to go over to the offensive, and work hard at bringing down the trade barriers which exist today.

Secondly, the developing countries. As the declaration says, the Summit countries are deeply concerned about their recovery. It is of course important to

us. If one quotes just one figure, 25 per cent of British exports (worth nearly £20 billion) now go to the developing countries. But we recognise the importance of recovery for the developing countries themselves. And for countries like ours, concerned with moral purpose and human dignity, the predicament of developing countries must matter.

Finally, let me mention just one other area of discussion which has been prominent on the agenda of Finance Ministers - the question of international debt. We have reaffirmed our agreed strategy. On the one hand we emphasise the need for debtor countries, with IMF guidance, to pursue effective adjustment of their own policies and performances. On the other hand we as creditors accept that creditor governments, banks, and international institutions must cooperate closely in providing realistic help to allow time for that adjustment to be made.

In all these areas, the discussions at Williamsburg have been valuable. This Summit has been an undoubted success. And the stress by all participants on the importance of securing growth without rekindling inflation should help to ensure that the recovery strengthens, and that there is further good progress to report at the next Summit, in the UK next summer.

Williamsburg

30 May 1983