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INFO ROUTINE BONN, PARIS, ROME, TOKYO, OTTAWA, UKREP BRUSSELS,  
UKDEL OECD, UKDEL NATO.

A.S.C. '96

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MY TELNO 1527: US REACTIONS TO WILLIAMSBURG SUMMIT.

1. THE PRESS HAS CONTINUED TO COMMENT WITH SOME SURPRISE ON THE SUCCESS WITH WHICH THE PRESIDENT HANDLED THE WILLIAMSBURG MEETING. THERE WAS INITIALLY A SUSPICION THAT WHATEVER ACCORDS HAD BEEN AT WILLIAMSBURG WOULD FALL APART ONCE THE PROTAGONISTS HAD RETURNED TO THEIR CAPITALS, AS HAPPENED AFTER VERSAILLES. BUT THIS HAS NOT YET HAPPENED, AND OPINION - THOUGH STILL SOMEWHAT SCEPTICAL ABOUT THE OPERATIONAL EFFECTIVENESS OF ECONOMIC SUMMITS AS SUCH - SEEMS WILLING TO ACCEPT THAT WILLIAMSBURG WAS INDEED A MODEST SUCCESS.

2. WALLIS (STATE DEPARTMENT, AND THE AMERICAN SHERPA) BRIEFED THE OECD AMBASSADORS ON THE OUTCOME ON 6 JUNE. IN ESSENCE HIS BRIEFING WAS AN EXPANSION OF THE COMMUNIQUE ITSELF: AN ACCOUNT FOLLOWS BY BAG. IN PRIVATE, WALLIS HAS TOLD MY COMMERCIAL MINISTER THAT THE AMERICANS WERE WELL PLEASED WITH THE WAY THE SUMMIT HAD GONE. THE PRESIDENT HAD DEMONSTRATED TO THE SCEPTICS THAT HE COULD MASTER THE ISSUES AND CHAIR THE DISCUSSIONS EFFECTIVELY. THE PRIME MINISTER MADE A MAJOR CONTRIBUTION, THROUGH HER ENERGY AND HER INTELLECTUAL INPUT, TO THE OUTCOME ON MATTERS OF SUBSTANCE. WALLIS DID NOT THINK THAT THIS COULD HAVE BEEN SO SATISFACTORY IF THE PRIME MINISTER HAD NOT BEEN ABLE TO ATTEND. HE ALSO THOUGHT THAT THE ABSENCE OF DETAILED PREPARATION, AND OF A PRE-COOKED COMMUNIQUE, HAD ALSO CONTRIBUTED TO THE BUSINESS-LIKE QUALITY OF THE DISCUSSIONS AND OF THE FINAL DOCUMENT WHICH HAD ISSUED.

3. WALLIS CONSIDERED THAT THE BASIC TRADE-OFF WHICH HAD BROUGHT ABOUT THIS SATISFACTORY OUTCOME WAS BETWEEN THE AMERICAN WISH FOR GOOD LANGUAGE ON TRADE (PARAGRAPH 3 OF THE DECLARATION) AND THE FRENCH REQUIREMENT FOR SOMETHING ON THE INTERNATIONAL MONETARY SYSTEM (PARAGRAPH 5). HE THOUGHT THAT THE AMERICANS HAD GOT MORE OF SUBSTANCE OUT OF THIS EXCHANGE THAN THE FRENCH: BUT HE DID NOT THINK THAT THE BARGAIN WOULD THEREFORE FALL APART.

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4. ON THE NEXUS BETWEEN BUDGET DEFICITS, INTEREST RATES, AND EXCHANGE RATES, THE AMERICANS HAD BEEN UNDER SOME PRESSURE AT WILLIAMSBURG. BUT WALLIS SAID THAT THE AMERICANS SIMPLY DISAGREED WITH THE ECONOMIC ANALYSIS OF THEIR CRITICS. REAL INTEREST RATES WERE NOT HISTORICALLY HIGH IN THE UNITED STATES, AND THEIR NOMINAL LEVEL WOULD FALL AS INFLATION FELL. THE HIGH LEVEL OF THE DOLLAR WAS DUE TO THE INWARD FLOW OF INVESTMENT MONEY FROM COUNTRIES WITH SHAKEY ECONOMIES, OR FROM INVESTORS WHO PREFERRED THE UNITED STATES MARKET TO THEIR OWN. HE CLAIMED WITHOUT A BLUSH THAT BUDGET DEFICITS HAD NOTHING TO DO WITH THIS.

5. ON EAST-WEST ECONOMIC RELATIONS, WALLIS SAID THAT LITTLE ATTENTION HAD HAD TO BE GIVEN TO THE SUBJECT. AT WILLIAMSBURG. THE AMERICANS WERE REASONABLY WELL SATISFIED WITH THE DISCUSSIONS THAT HAD TAKEN PLACE ELSEWHERE, AND THESE WOULD OF COURSE CONTINUE. THERE HAD BEEN NO DISCUSSION AT WILLIAMSBURG ABOUT CREDIT FOR THE EASTERN COUNTRIES, NOT LEAST BECAUSE (IN HIS OWN VIEW) CREDIT RESTRICTIONS WERE MEANINGLESS: ANY COMPETENT BUSINESSMAN WOULD FIND HIS WAY ROUND THEM.

6. AS FOR THE FUTURE, WALLIS THOUGHT THAT IT WAS FOR THE AMERICANS TO CARRY FORWARD THEIR IDEAS ON THE LINK BETWEEN TRADE AND FINANCE: IN ESSENCE THIS WOULD MEAN COMBINING THE THOUGHTS IN PARAGRAPHS 3 AND 4 OF THE DECLARATIONS. BUT THE AMERICANS DID NOT YET HAVE ANY PARTICULARLY CLEAR IDEAS, NOR ANY THOUGHTS ABOUT THE RIGHT PLACE FOR FURTHER DISCUSSIONS. HE WOULD BE GETTING IN TOUCH WITH BROCK AND REGAN IN ORDER TO CARRY THINGS FORWARD. IN HIS VIEW IT WOULD BE FOR THE FRENCH TO CARRY FORWARD THE DISCUSSION OF THE INTERNATIONAL MONETARY SYSTEM, SINCE THAT WAS THEIR BABY. (HOWEVER, SPRINKEL (TREASURY) HAS TOLD MY ECONOMIC MINISTER THAT THIS TASK SHOULD BE CARRIED FORWARD IN THE SUMMIT MACHINERY I.E. THAT THE RESPONSIBILITY LIES WITH SECRETARY REGAN AND WITH THE CHANCELLOR, SINCE WE SHALL BE HOSTS FOR THE 1984 SUMMIT).

COMMENT

7. APART FROM THEIR SATISFACTION ABOUT THE SMOOTH WAY IN WHICH THEY CONDUCTED THE SUMMIT, AMERICAN OFFICIAL IDEAS ABOUT ITS LONGER-TERM CONSEQUENCES ARE STILL BEING FILTERED OUT. WALLIS'S ASSERTION THAT THERE IS NO CONNECTION BETWEEN BUDGET DEFICITS AND OTHER FINANCIAL PHENOMENA REFLECTS THE LINE WHICH SECRETARY REGAN HAS BEEN TAKING IN PUBLIC FOR SOME TIME. IT IS NOT OF COURSE A VIEW SHARED IN THE FINANCIAL COMMUNITY NOR BY FELDSTEIN, THE CHAIRMAN OF THE COUNCIL OF ECONOMIC ADVISERS. WE ARE SEEKING TO ESTABLISH WHETHER THERE IS MORE TO IT THAN SIMPLY A DESIRE TO

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GET THE NATION'S DOMESTIC AND INTERNATIONAL CRITICS OFF THEIR BACKS, AND PROTECT THE THIRD ROUND OF TAX CUTS TO WHICH THE PRESIDENT EVIDENTLY ATTACHES OVER-WHELMING POLITICAL AND PERHAPS ECONOMIC IMPORTANCE. IT WOULD NOT BE WELCOME IF THE REMARKS BY WALLIS AND REGAN REFLECT A SHIFT IN THE US ATTITUDE IN THE BUDGET DEFICIT FROM A WILLINGNESS TO TAKE ACTION WHEN IT BECOMES POLITICALLY POSSIBLE TO DO SO TO GENUINE DOUBTS ABOUT THE NEED FOR ANY ACTION AT ALL.

B. ON OTHER SUBJECTS, SUCH AS EAST-WEST TRADE AND AGRICULTURE, THERE HAVE BEEN SOME INDICATIONS THAT US ATTITUDES ARE HARDENING AGAIN NOW THAT THE NEED FOR AN UNRUFFLED SUMMIT IS OUT OF THE WAY. THIS WOULD NOT BE SURPRISING, SINCE THE ADMINISTRATION WOULD IN ANY CASE NEED TO PROTECT ITSELF AGAINST ACCUSATIONS FROM ITS HARD-LINE CRITICS THAT IT WAS LULLED BY AMERICA'S PARTNERS AT WILLIAMSBURG INTO GIVING UP THE PURSUIT OF IMPORTANT AMERICAN INTERESTS. BUT AT PRESENT THERE IS NO SIGN THAT THEY ARE PLANNING TO LOOK FOR TROUBLE ON EITHER ISSUE.

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MR DONALD  
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