

BONN ECONOMIC SUMMIT

Heads of Delegation Meeting, Morning, 3 May

- Kohl: Welcomes colleagues. Start by examining text of political declaration. Break at 11.00. Then economic. This afternoon Genscher will report on Foreign Ministers and then Stoltenberg will report on Finance Ministers' discussion. By the end of the afternoon we give our Permanent Representatives instruction for economic declaration.
- This is Adenauer's room. He sat where Reagan is sitting. Hope atmosphere is more relaxed today. There were many guests here - statesmen of great distinction. Adenauer's funeral began here. I was first invited here when I was 23. I was against his views then, and he tried to change my mind.
- Turns to political declaration. We have found a compromise. Any comments?
- Craxi: On page 2, towards end: add sentence saying:
- "We hope that conflicts in Middle East can be resolved with respect to rights of all the countries in the area".
- We could include Iran/Iraq conflict. I should like to introduce a wish in favour of democratic freedoms in the whole of the Latin American area.
- Thatcher: We are in danger of adding comment about danger in every part of the world. The two we have are about decisions based on East/West conflict. Iran/Iraq is not related to that. I should be reluctant to add paragraphs on other matters of foreign affairs. If we think otherwise, ask Foreign Ministers to draw up a separate declaration.
- Kohl: I agree that. Ask Foreign Ministers to draw up a text which I could use for a statement.
- Craxi: Okay, but I should like to see a text. If we don't, we shall be thought to ignore important problems in world.
- Mitterrand: Agrees with Craxi. This declaration should be confined to what results from 2nd World War, and should say so.
- Reagan: Something of what we have been saying is already in last paragraphs. Covers it all. Trouble spots so many but I wonder whether we could cover all of them.
- Nakasone: Leave this declaration as it is. Let there be a summary of subjects discussed.

/Mulroney

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Mulroney: Important to retain the integrity of this document.

Mitterrand: But refer however to our friendly countries united after 2nd World War, and say that we are confining ourselves to that. That would explain why we are not discussing other subjects in this declaration.

Kohl: The title makes it clear. 50% of our peoples not alive in 1945. Remind them of the war and say we have learned lessons. As a German, I find it of particular importance to refer to two countries divided by ideological division. Either refer to Foreign Ministers or can you propose?

Mitterrand: "Considering the condition of affairs which we have achieved 40 years after the end of the War, we look forward to a state of peace in Europe ..."
/Insert in paragraph 47.

Craxi: Ask for reference to countries under foreign domination (Afghanistan and Kampuchea) and to ends of conflicts (Middle East) and to spread of democracy in Latin America. Ask Foreign Ministers to draw up a declaration of principles on these matters.

Kohl: Accept insertion proposed by Mitterrand. Separate statement of principles on other matters.

Reagan: Next paragraph refers to UN and all countries in difficulty comprehensively. Don't let us go into specifics.

Mulroney: Mitterrand's suggestion does not make things more difficult.

Kohl: (1) Accept Mitterrand's extra sentence.
(2) Ask Foreign Ministers to make a separate statement on other issues.

Thatcher: If we add Mitterrand's extra, we upset the structure of this paragraph:

"Considering the climate of peace and friendship which we have achieved among ourselves forty years after the end of the War, we look forward ..."

It seems to break the flow; we don't qualify earlier sentences.

Craxi: It was meant to clarify that we refer to two events because they are the consequence of the Second World War. First two sentences are a description of reality in Europe, and then go on to two ideological divisions resulting from the War.

/Mitterrand:

- Mitterrand: See Thatcher's point. But this is not an exercise in style, and I think Craxi's comment is apposite. If we are going to have a broad statement, this additionally underscores that we are talking about ourselves who were in the war, not about others.
- Kohl: Shall we ask our Foreign Ministers to do this?
- Thatcher: Let's do it ourselves. Let's add what is proposed by Mitterrand.
- Mitterrand: "Considering the situation which we have reached among ourselves 40 years after the end of the war, we recall in particular that we look forward to ..."
- Nakasone: Cover Asia.
- Thatcher: "Considering the climate of peace and friendship which we have achieved among ourselves 40 years after the end of the war, we look forward to a state of peace in Europe ... Self-determination: and in Asia we earnestly hope ... peninsula in freedom".
- Kohl: We are agreed. Ask Personal Representatives to deal.
- Now turn to economics. Thanks to our Personal Representatives, who have borne the main burden of preparation. They have done good work. We have had representations from various sectors, including a statement from trades unions promising collaboration in solving problems. I do not agree with all their suggestions. But we are having some success. Recovery in third year. Particular impetus from US. Inflation at lowest level for 12 years. Greatest benefit to us; and to developing countries. Does not solve all problems, but it eases them. Greatest success if we continue on current path. Getting inflation down best way of reducing unemployment. Always bear in mind external consequences of national policies. Hope we can develop a new impetus but we need to be credible. Not just paper promises. People expect follow-up. Concentrate on (i) disciplined fiscal and monetary policy - look particularly to US budget deficit which has consequences for rest of us - strength of dollar and high interest rates. High interest levels draw capital from our countries and add to problems of debt service of developing countries. High rate of dollar undermines American industry. We understand problems of Congress but, Mr President, I welcome warmly your commitment to a substantial reduction in budget deficit. In Europe we also have a lot to do. Considerable structural change, more open, more flexibility, more mobility. We can learn a great deal from one another. We can learn from US productivity and competitiveness. We discussed these

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problems in Williamsburg and London. We have sought to free our economies for trade and development. Considerable domestic sacrifices to consolidate budget. We always want other people to make savings. Need for attack on bureaucratic obstacles. Three levels of bureaucracy in FRG - Federal, Land and local. They all try to make room for themselves. But we have made room for manoeuvre. Between 1986 and 1988 we hope to make tax cuts amounting to DM 20 billion. I do not agree with compensating for weakness in economic achievement by higher Government expenditure. Growth best promoted by free and open market.

Protectionism: None of us is free from protectionist measures. Trend to protectionism is growing. They do not solve problem. Don't just talk about it: do something. Also addressed Nakasone. Considerable measures taken by Japanese Government to open market, and encourage purchase of foreign goods. Need more. Measures to strengthen open multilateral trading system (OMTS) should be carefully prepared and start as soon as possible. Reassure developing countries that existing programme won't be slowed down. Alongside effective OMTS, we need effective international monetary system. Show readiness to help victims of famine etc in sub-Saharan Africa.

Show youth that we care.

Importance of link between economy and ecology. Be careful in management of natural resources, i.e. fundamental to economic growth. Our concern about disregard of ecological considerations.

We need a long-term perspective.

Mitterrand:

In France we have adopted a gradual approach which may appear slow to some but has advantages of avoiding problems which could become dangerous. Inflation, 14% in 1981, down to 6% in 1984; best since 1971. Gap between us and European average diminishing. Activity at 4.5% next year. We shall have brought down inflation by 9%. Balance of payments improving: I inherited deficit of French Francs 62 billion, last year 20 billion, with considerable surplus on industrial products. If we did not have to buy our oil, we should have had a surplus of 120 billion. Public deficit now under control, not without a struggle. Deficit held at about 3%. This control of finances has enabled us to reduce levels of taxation and social security contributions substantially (by French Francs 30 billion).

In modernisation we have time to make up, but we are restructuring in many industries, e.g. chemical, ship building. Now on our ninth four year plan. Investment into high technology and information technology areas. In 1981 we nationalised a number of large corporations. Five of the six were making considerable losses, threatened with bankruptcy. Four of six now making a profit. Other two would be, if we weren't having to pay off accumulated losses. Renault going through the same sort of crises as other motor manufacturers. Industrial output going up: up by 15% in value terms. Profits best since 1974 (profit margins). GDP has never gone down: it has constantly risen. Our austerity measures did not force us into recession. But growth rate still too low: 1.5% in 1985 compared with 2.5% for rest of Europe. This too slow growth does at least protect us from reverses which others would suffer if there was a sharp reduction in growth. Purchasing power going down by 0.7%-0.8% per year. But no social conflict: fewer strikes and disputes than at any time in 50 years. But situation is difficult in France. The drop in purchasing power gives rise to dissatisfaction. But no sharp shocks or deep wounds from our policies.

Blacked Areas: 9% unemployment is too high. Even though unemployment has gone up less in France it is still too high at 2.4 million. For past two months number going down slightly; we hope it will go down more steeply. We need to modernise our traditional industries.

But though we are up in four or five best exporting countries we are not up to best. But we are progressing and hope to resolve main problems in next two or three years.

Social Affairs: A policy of dialogue and consensus with unions: what we call a "contractual policy". That makes for rigidities. Not enough mobility. Trade Unions hostile to high mobility. We could enforce it by law, but we have to take account of ideas of two sides of industry, who are against it. Our industries a breed apart: constantly asking for state aid. We should like to make progress towards a better monetary organisation. We made some progress under Delors. Should we not make further progress? Volatile exchange rates can undermine rules and even destroy an economic plan. Is it sensible to deal with trade and not money? Kohl referred to movement of capital to US because of high interest rates. United States prosperous and hard working: good luck to them. But we need to regulate things a little better.

On trade we are here to meet and talk not to solve the problems of the world. There are a plethora

of international organisations on these two subjects. We should not do their work for them. Don't be too imperative here. It would be good for protectionism to give way to a more open trading system, but we have not yet completed commitments from the last round. France not very concerned with the agricultural debate. We agreed on that last time. Effects of European policies in US compensated for by measures to help US producers of soya etc. You cannot negotiate the same thing twice. But we are very interested in industrial trade and in services and standards.

So negotiations not about agriculture in which we are not interested, and not other things in which we are interested. So we are not too keen on them: nor are developing countries. Negotiations as soon as possible: well yes. We have agreed elsewhere and we won't change course. But we are well aware of what is missing.

European Community is doing well. Welcome Spain and Portugal. Welcome preferential agreements with Mediterranean countries. Would be desirable to strengthen relations with Eastern European countries. Need to bring interest rates down. Do something for countries of the South. A well-worn subject; but they are going to be overwhelming majority of the world. They are all going to want to find jobs in Europe.

Mulroney:

Productivity increase, 2% a year from end of war, came to a halt in 1969. Canada still spent less per capita on value added than any civilised country except Iceland and Ireland. We went down from 1% of GNP to 0.9%. Second only to Italy in number of man days lost. So Canada lost over 1% of its share in world trade, which meant 500,000 jobs. We are now struggling to get back to where we were. If we had US employment growth rates, we should knock 563,000 off unemployment register.

We have a budget deficit of over Canadian \$ 35 billion.

In US terms that will be equivalent to US \$ 350 billion deficit. Canada used to be one of most fiscally sound countries in the world. Deficit in 1967 US \$ 18 billion, then up to US \$ 190 billion, up towards US \$ 400 billion. 35% to 40% of revenue taken up by debt service. We came in with new policies:

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giving ... benefit to doubt, ended war with provinces, refurbished relations with US (Canada's largest exports (?)). But not at expense of Europe: we ... countries to NATO ... FIRA. We cut US\$ 3½% off public spending - largest cut ever in Canada. So this year the lowest rate of growth in public spending for 17 years. We are ...

If we had gone on as we were by 1991 there would have been no scope for any discretionary spending. Indeed to develop Canadian nation (?). We will liberalise trade, encourage enterprise and small businesses.

Conducting a big clear up of acid rain. Reagan very cooperative. We have lived off our resources (as opposed to our) for too long. Over 11% unemployment. We need your help in getting through our problems, getting down that deficit.

A particular problem: Mitterrand's initiative on Africa very apposite. But also look at problem in Caribbean. Look at what ... has done to Jamaican economy: but then the bottom drops out of business ... countries that do everything and are ... need understanding and help. I have asked my Finance Minister to raise this with his colleagues. Our lending institutions should respond to that in a major way.

Kohl: Do you want a break now?

Thatcher: No. Let us go on.

Craxi: In Italy, recovery is going on. In 1984 growth rate of 2.5%, one of the highest in Europe. A year ago inflation was very high. We have reduced it by four points but it is just under 9%. We ought to try to reduce it further this year and next. Industrial investment up by 8% in real terms. Balance of payments affected by imports required for recovery. But unemployment still at 10.4% (cf EC average 10.6%). Unemployment hits young particularly. We have asked ourselves how to solve problem of unemployment. We discussed this in Venice. US has managed to create jobs for people. Productive future must be centred in small and medium enterprises. So we must give up projects for "mega-enterprises". A strong deficit in public accounts, mainly on account of debt service requirements, limits what we can do in other areas over assistance to industry and other productive expenditure. Italy very open economy. Dependent on

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energy and food imports. So we have to export as much as we can. So we favour an open and free international trade. We should like greater stability in currency values, especially the dollar.

Protectionist warfare is a step back. Our interest for the future is in creating new markets all over the world. How can our economies develop unless new markets are free and encouraged. Create a vast system of development for these developing countries. We must create a market system which is completely different. Speed up development assistance and make them markets for what we produce. The future lies in balancing up the world situation.

Reagan:

Let us start out with our villainy!

There has been something of a rebound in the world economy since Ottawa in 1981. In our system, for the first 8 months of an Administration tied by predecessors' policies, we had higher inflation and high unemployment for 50 years. We have had a deficit leading to a national debt approaching 3 trillion dollars. We did not get all the expenditure cuts we wanted: but we got a 25% tax cut. Our recovery began with the full implementation of that. Inflation down to 3.7%. We brought prime rate down from 2.15% to 10.5%. I asked a leading industrialist to chair a committee to come into government and tell us how modern business practices could be used to improve efficiency and economy in the public service. Over 2,000 recommendations. We also set up a task force under Vice-President Bush on deregulation. We have carried out many of the recommendations of both bodies despite Congressional resistance. We have been adding 300,000 people a month to employment. Nonetheless, level of unemployment remains up. We have been incorporating 600,000 new businesses a year. We have 14 million small businesses; only 0.2% are in the Small Business Administration for help or money. So we have decided to close the SBA. We have also recommended to Congress that we pull out of the railroad industry. Every passenger on the railroad costs \$35 in subsidy. But we keep our safety net. 95 million meals a day. Educational and medical programmes. We have kept them but re-directed them to those most in need. Now we are working on a tax simplification plan, which will produce more money though the rates will be lower, by eliminating loopholes in the law and temptations to avoidance. Some companies haven't paid corporation tax for years. Our deficit is 5.7% of GNP. On our programme we will come down to 2% of GNP by 1988 and if we go on from there to a

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balanced budget by 1990. We manage to pay out much less in unemployment insurance in second six months than you do, and than we do in the first six months of unemployment. People manage to find jobs without unemployment insurance running out. We have had locally-focussed job training arrangements which meant that two thirds of those trained got job placements. We are determined we are going to balance the budget and bring interest rates down further. Housing and motor industry trade back in full swing - despite Japanese competition! We had government regulation of fuel and energy. I ordered that cancelled. Everybody said prices would go up. They have come down. We intend to de-regulate natural gas.

\$100 billion of our savings will be in defence. When we took office, defence was a disaster: 50% of aircraft and ships could not take off. Defence okay today. The \$100 billion will come from elimination of waste and profligacy in Department of Defence. We are getting more bang for the buck. Our recovery has helped yours; we want that to continue. We think all the evidence is on the side of more open trade. We have plenty of protectionist pressures, which we are resisting all we can.

US buying 58% of manufactured goods of all the developing countries. Even in African countries where we are giving military aid 78% of our aid is social and economic, only 22% military.

Start new round in 1986. Implement findings of G10. We believe we should consider hosting a meeting to consider their findings, but without prejudice to G10 or IMF.

Nakasone: Japanese economy doing well; 2.2% inflation. Wages up by 5%. Problems of excess exports and budget deficit. In 1984 GNP up by 5.8%; 1985 4.6%.

Dependance on bond issues 22%. Long term bonds outstanding 48% of GNP (cf 33% in US), 18.8% of spending is debt interest. Our finance worse than US. Trade healthy. \$36.9 billion trade surplus. Looking at long term capital outflow \$24 billion, 2.6 times year before last. \$7.7 billion coming in. So balances \$17 billion negative. So government is poor, industry and people rich. We have been promoting administrative and fiscal reform: a zero cap on government spending, or even reductions, on employment and welfare spending.

/Life

Life expectancy rates up (80 for women, 79 for men), so welfare payments up. We are privatising. Nippon telephone, coal and steel and are now privatising industries in face of strong battle with unions. We are giving you trouble in trade, but on 9 April we passed measures which will open markets over three years.

Japan is insular and Confucianistic, with people protected. We have decided to change all that to international practice: freedom the rule, regulation the exception. A special drive, headed by myself. Moving towards liberalisation of capital markets and of yen. Some say we should control outflow and strengthen the yen; I prefer to liberalise market and let yen find its own level.

Public investment 5% of GDP (up 1.5% = 1.6% = UK). We intend to resort to private sector revitalisation. We also intend to carry out tax reductions on same lines as Reagan. On these basic principles we try to proceed to stimulus of domestic demand over next two to three years.

We must all fight together against protectionism. Problems like strong dollar and high interest rates should be settled by international cooperation: strong dollar creates problems for us, but we are dependant on US and do not welcome curtailments of US defence spending. But hope Reagan will carry out his commitments.

Hope for early start on new trade round. Congress has passed resolution for import tax on imports from Japan: that would be extended to Europe. So start new round as early as possible in 1986. Heard what Mitterrand said over agriculture; but pressure from Australia and elsewhere. Agriculture should not bear the brunt.

Have a preparatory meeting this year. There must be no hiatus between existing programme and new rounds. Of course there must be consideration for developing countries. I have had comments and requests from Asean countries, India and Pakistan. We doubled ODA over the last five years; we have decided to double again in next five years.

Delors:

As four largest EC countries are here, I won't presume to speak for them. But I must not forget the other six, or Spain and Portugal. Two characteristics: (i) the other six even more dependant on world trade than the big ones; (ii) they are also areas in which

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small scale family predominates. Against the big two faces: high technology and small scale. On trade, I shall be Cassandra-like. Thanks to US, quite strong increase in world trade. But US cannot sustain this indefinitely: this year growth in world trade down to 4-5%. Contrast better dynamic growth in US and Japan and small growth in Europe. Need for better exploitation of technology and better technology transfer. Welcome work of Working Group on Technology, Growth and Employment. Europe should be more dynamic: needs to encourage small business (as Mrs Thatcher said to European Council) but European economy is expanding. On employment, EC cannot be compared to US or Japan. EC trade 45% of its product compared with 20% in US and with 35% in Japan. We have lost 300,000 jobs in iron and steel. 1½ million in textiles. But Europe not sclerotic: have to go through this period of adjustment. In relation to countries of the south, greatest concern are problems of famine and indebtedness. We have not yet found fair solutions. We met Chairman of Cartagena Group. If new democracies in Latin America do not do reasonably well, dictatorship will come back.

Countries round this table represent 46% (?) of world trade. Indications you could give to the world would include structural features as well as market economy.

A new trade ground must be properly prepared if it is to succeed.

We must try gradually to improve the way the international monetary system operates so that it becomes more stable and clearer. We must find adequate and appropriate solutions to problems and indebtedness to developed countries. Japan should participate more in international economy. Nakasone striving to do that. Europe should do more to stimulate its own growth. We need also cooperation in technology. We do more for developing countries.

Mrs Thatcher: What strikes me is similarity of what we say. All agree with Kohl. No change in strategy. Honest money policies get inflation down and employment up. Every single one reporting keeping our expenditure under control and keeping our fiscal deficits down. We are seeking policies we can sustain through the years. Nakasone talked of serious financial position. He forgot to mention Japanese savings ratio. We are all of economic sound policies. That is the way to sustain growth.

/Except

Except for US and Japan we do have same paradox. We have had growth for four years: record output, record standard of living: record growth but also record unemployment. That does not seem to happen in US and Japan. How can we achieve that level of job creation that will get employment to come down. In last year, in UK we created 600,000 new jobs, but unemployment is up. Partly because of demographic trends, partly because married women coming into employment. What are US and Japan doing? Would it work here? US and Japan have much more flexible and efficient labour market. People readier to move, wage costs less rigid. We have done less well on development and technology. US and Japan universities more industry-orientated than ours.

European unemployment benefit more generous than US or Japan. We are trying to increase the gap between earnings at work and benefits for not working.

We are all reducing regulations. What worries me is not the number we are reducing, but the number we have left. We must go on with this. We are emulating US in tax reforms. When we have done our best we still want the sort of enterprise culture you have in US and Japan.

We want the kind of independent spirit you have in US and Japan. Perhaps US did better because people came to US because they wanted to be free and independent.

Trade: learn lessons of 30s. Protectionism reduced trade. Be grateful to US for what they have done to maintain world trade. But US cannot sustain that forever. We must take all our problems to GATT. We all have problems. So have Japanese - you do not import enough. You have special safety regulations. You don't accept international standards, you have a poor distribution system. You knock us out of markets by aid and trade. We have to take all our problems into GATT, if we do not we are going to have to deal with them bilaterally. Of course it must be well prepared, but I have no difficulty with agenda. We should deal with services. We cannot exclude agriculture; what we are doing hurts other peoples' agriculture. The NIC must open their markets. Developing countries need trade to service their debts. Some of richest third world countries in big messes because they have run their affairs badly.

/Africa:

Africa: do not just give them food; help them to develop their own food production. Look at effect of high copper price, diversifying people to substitutes with bad effect in Zambia. We have to look at all these things in a more sophisticated way.

Motor: we cannot impose stability. That will depend on our following sound and convergent policies. We asked G10 to report on ways of improving functioning of the monetary system ("a more stable exchange market system").

G10 report on 21 June. Then our Finance Ministers will look at it. No point in convening them under another name. We cannot impose our views; but we can give a lead. I am an open trader; we keep our markets open to people who do not open theirs to us. Unless we deal with these matters together we shall be forced by pressures to deal with them differently bilaterally.

Kohl:

Sum up. Summits not for papers but for talk.

This morning we have covered a wide range. Given our Minuters a task to complete a document which we shall then publish. Europe giving a message of pessimism. That won't help to solve our problems. We started with declaration of 40th anniversary of end of war; look how far we have come. We should send a positive message. Now to photograph and lunch.