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TELNO 1206

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INFO ROUTINE PARIS, BONN, ROME, OTTAWA, TOKYO

VENICE ECONOMIC SUMMIT: US APPROACH

SUMMARY

1. THE PRESIDENT SETS OUT HIS APPROACH TO THE MAIN ISSUES AT VENICE: IN THE 40TH ANNIVERSARY YEAR OF THE MARSHALL PLAN, THE CONTINUING NEED FOR PARTNERSHIP BETWEEN THE WESTERN DEMOCRACIES. A LESSON WHICH APPLIES TO TRADE AND ECONOMIC ISSUES; AND TO OTHER ISSUES BEFORE THE SUMMIT, INCLUDING THE PROTECTION OF COMMON WESTERN INTERESTS IN THE GULF.

DETAIL

2. I ATTENDED ON 1 JUNE A CEREMONY AT THE WHITE HOUSE FOR OECD AMBASSADORS AND OTHERS, AT WHICH THE PRESIDENT SIGNED AN ORDER PROCLAIMING JUNE AS GEORGE MARSHALL MONTH, TO MARK THE 40TH ANNIVERSARY OF THE MARSHALL PLAN. THE OCCASION GAVE SHULTZ, BAKER AND THE PRESIDENT AN OPPORTUNITY TO DESCRIBE THE ADMINISTRATION'S APPROACH TO THE MAIN ISSUES AT VENICE.

3. COPY OF THE PRESIDENT'S SPEECH FOLLOWS BY FAX TO NAD. THE PRESIDENT LEAVES FOR ITALY ON 3 JUNE.

4. THE PRESIDENT RECALLED THE ACHIEVEMENTS OF THE MARSHALL PLAN AND THE TRUMAN DOCTRINE. MARSHALL'S FAR-SIGHTED PROPOSALS SET IN HAND A PROCESS OF COOPERATION AMONG THE WESTERN DEMOCRACIES.

PARTNERSHIP WAS EQUALLY NECESSARY IN TACKLING TODAY'S PROBLEMS:

(I) IN THE ECONOMIC FIELD, THERE WAS A COMMON NEED TO FIGHT PROTECTIONISM AND TO OPEN MARKETS. QUOTE ANY COUNTRY SELLING HEAVILY IN THE US, WHOSE MARKETS ARE NOT SUBSTANTIALLY OPEN TO AMERICAN GOODS, RISKS A BACKLASH FROM THE AMERICAN PEOPLE. NO COUNTRY THAT CLOSES ITS OWN MARKETS OR UNFAIRLY SUBSIDISES ITS EXPORTS, CAN EXPECT THE MARKETS OF ITS TRADING PARTNERS TO REMAIN OPEN UNQUOTE. JAPAN AND GERMANY SHOULD ADOPT GROWTH-ORIENTED DOMESTIC POLICIES. JAPAN'S OFFER TO RECYCLE SOME OF ITS SURPLUSES TO DEVELOPING COUNTRIES WAS WELCOME QUOTE I HOPE THAT DURING THE COURSE OF THIS SUMMIT, JAPAN WILL CLARIFY WHAT FORM THIS AID WILL TAKE UNQUOTE.

(II) IN THE GULF, QUOTE IT IS NOT OUR INTERESTS ALONE THAT ARE BEING PROTECTED. THE DEPENDENCE OF OUR ALLIES ON THE FLOW OF OIL FROM THAT AREA IS NO SECRET. DURING THE SUMMIT IN VENICE, WE WILL BE DISCUSSING THE COMMON SECURITY INTERESTS SHARED BY THE WESTERN DEMOCRACIES IN THE PERSIAN GULF UNQUOTE.

(III) IN THE ARMS CONTROL FIELD, DETERMINATION AND UNITY OF ALLIED LEADERS HAD OPENED THE PROSPECT OF AN LRINF AGREEMENT.

5. SHULTZ ADDED THAT THE SAME NEED FOR WESTERN COOPERATION APPLIED TO OTHER ISSUES BEFORE THE SUMMIT: TERRORISM, AIDS, NARCOTICS, AGRICULTURE AND DEBT.

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6. BAKER GAVE A VERY UPBEAT ACCOUNT OF PROSPECTS FOR THE US ECONOMY. THERE WERE NO SIGNS OF A RECESSION: GROWTH WAS FORECAST TO BE 3 PER CENT THIS YEAR. THE BUDGET DEFICIT WAS LIKELY TO FALL BY SOME 40 BILLION DOLLARS TO 175 BILLION DOLLARS: (3.5 PERCENT OF GNP): A DECLINE OF SOME 18 PERCENT IN THE CURRENT FISCAL YEAR. THE WAY TO REDUCE THE DEFICIT WAS TO REDUCE SPENDING NOT TO INCREASE TAXES. THE TRADE FIGURES WERE ALSO BEGINNING TO MOVE IN THE RIGHT DIRECTION: EXPORTS WERE UP SUBSTANTIALLY WHILE IMPORTS WERE LEVEL. FOR THE SUMMIT, THE KEY POINTS WERE TO IMPROVE ECONOMIC POLICY COORDINATION: REAFFIRM OPPOSITION TO PROTECTIONISM AND SUPPORT FOR THE NEW GATT ROUND: AND IMPROVE COOPERATION ON AGRICULTURE AND THIRD WORLD DEBT. THE US WERE PLEASED WITH THE NEW JAPANESE ECONOMIC PACKAGE.

7. COMMENT: THIS OCCASION WAS ORGANISED AT SHORT NOTICE TO GIVE THE PRESIDENT A PLATFORM FOR A SPEECH HE WAS TO HAVE MADE IN ROME, AS PART OF HIS VISIT TO ITALY NOW CURTAILED AS A RESULT OF THE ITALIAN ELECTIONS. THE THEME OF WESTERN PARTNERSHIP APPLIES NEATLY TO A NUMBER OF ISSUES OF CURRENT CONCERN TO THE US: AND IS LIKELY TO BE PICKED UP IN THE PRESIDENT'S INTERVENTIONS AT THE SUMMIT.

8. FCO PLEASE ADVANCE TO LITTLER (TREASURY) AND LOEHNIS (BANK).

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