

See highlighted passage.

A.J.C. 3/5

RECORD OF A CONVERSATION BETWEEN THE CHANCELLOR OF THE EXCHEQUER
AND THE JAPANESE FINANCE MINISTER AT NOON ON 29 APRIL

Present: Chancellor Mr N Takeshita, Finance Minister
Mr Littler Mr K Watanabe, Deputy Minister
Mr Kerr Mr T Oba, International Finance Bureau,
Finance Ministry
Mr Y Ezawa, International Finance Bureau,
Finance Ministry
Mr T Asami, Private Secretary

Mr Takeshita congratulated the Chancellor on the outcome of the Interim Committee's February meeting. He had been very sorry not to have been able to attend the meetings, but he had thought the decisions reached at it entirely right, and the outcome a tribute to skillful chairmanship. The Chancellor said that he had been very appreciative of the role played by Mr Watanabe during the crucial evening meeting.

Mr Takeshita said that he had sought the present meeting in order to consult the Chancellor about a domestic political question now under consideration in the Japanese Government. Elections to the upper house in the Diet would be held in June; and a proposal to dissolve the lower house, and hold elections to it on the same timescale, was now being considered. The question which bothered him, and on which he would like the Chancellor's advice, was whether it would effect the economic Summit, and the Japanese Prime Minister's standing at it, if an election campaign was then under way in Japan. The Japanese had not asked this question of other governments; but he thought it right to seek the advice of the Chancellor, as the senior among Summit Finance Ministers.

The Chancellor said that it was not really, of course, for any non-Japanese to advise the Japanese Government on the timing of their elections. However, his impression was that any unsettling effect on the Summit of an election in Japan would be slight. As a politician he could only admire the formidable tenacity of the Liberal Democratic Party in Japan, whose tenure of office was, he thought, matched in the western world only by the Conservative Administration in Ontario who had held power since 1942. World public opinion would probably discount any risk of an LDP defeat in June. It was hardly possible to time Summits so that none of the leaders present were under the shadow of forthcoming elections. This had not in the past proved a major constraint on the effectiveness of Summits: he saw no reason to expect this to change.

Mr Takeshita said that he was grateful for these comments, and would report them in Tokyo. He was grateful, too, that the Chancellor had not bridled at being asked for advice on a Japanese internal matter. He repeated that the matter was not being raised with any other Summit participants; and he was sure that his confidence would be respected.

The Chancellor then described UK objectives at the Williamsburg Summit. We were anxious that it should be, and be seen as, a success. This, in our view, entailed setting in advance targets which could realistically be attained, rather than allowing expectations to be raised unrealistically high. Thus, on the question of the efficacy of intervention in foreign exchange markets, it would be quite wrong to envisage a complete meeting of minds at Williamsburg between the Americans and the French. The views of the two parties were

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diametrically opposed and strongly held. But the Jurgensen Report, to which both signed up, did indicate the beginnings of a convergence of view. It would be important to accentuate at the Summit this positive development, rather than highlighting, through acrimonious dispute, the remaining gulf. Similarly, on surveillance, the Versailles initiative for greater mutual surveillance of economic policies and performance, with a view to encouraging greater medium-term convergence, had been taken further in the last year, and this should be played up at Williamsburg. Of course, differences of emphasis on particular policies persisted among the Summit participants, but the Summit should not emphasise these differences but instead stress the progress towards convergence and the establishment of an embryonic surveillance machinery. The Chancellor added that it would in this context be possible privately to point out to the Americans the connection between high budgetary deficits and high interest rates, and the significance of ensuring lower interest rates in encouraging recovery.

Mr Takeshita said that he entirely agreed with the Chancellor's approach to the Williamsburg discussions. He had studied the press statement which the Chancellor had issued on 25 April, and warmly endorsed his rejection of the "locomotive" theory and concerted reflation. Like the UK, Japan thought it important that Summit participants reaffirm their commitment to policies which would produce sustainable non-inflationary growth.

The Chancellor then referred briefly to the issue of IMF access. In agreeing in February on the 8th quota increase, Interim Committee members had thought it right to increase quotas in order to provide, for countries in difficulty, increased access to IMF resources. It would be wrong now to reverse the effect of increasing quotas, by tightening the access rules. Mr Takeshita said that this issue would require further consideration and discussion.



J O Kerr
29 April 1983
Washington DC

cc: PS/Financial Secretary
Mr Middleton
Mr Burns
Mr Littler
Mr Lavelle
Mr Bottrill

Mr Coles (No.10)
Mr Fall (FCO)
Mr Hatfield (Cabinet Office)
Sir Hugh Cortazzi (Tokyo)
Chancery, Washington