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Foreign and Commonwealth Office

London SW1A 2AH

4 June 1984

Dear John,

Mr Malcolm Fraser

Thank you for your letter about Mr Fraser's call on the Prime Minister on 5 June.

There is I am afraid little which we can add to information in your letter about the meeting of former Heads of Government. It was formally described as a meeting of the "Interaction Council" and took place in Brioni, Yugoslavia on 25 May. Those taking part included former Prime Ministers of Australia, Japan, Yugoslavia, the FRG and Dr Waldheim the former UN Secretary-General.

At the conclusion of their meeting they sent a message by telex to the Prime Minister, and we understand to a number of other Heads of Government, commenting on the international financial scene, particularly on the debt problem. I enclose a copy. We shall shortly be letting you have a draft reply from the Prime Minister.

The Prime Minister's meeting with Mr Fraser will be an opportunity for her to describe her approach to the Economic Summit in general terms and to take up a number of points in the message from the Interaction Council. We suggest that the Prime Minister might comment in particular on the following points in the message:

- (i) "a comprehensive approach to international debt in a manner that takes into account the capacity of countries to pay without further reductions in depressed living standards".  
As the Prime Minister is aware we are very much committed to a case by case approach on debt. Nor can we accept the implication that the IMF ignores the capacity of countries to pay in framing its adjustment programmes.

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- (ii) The need for governments to create liquidity in the international system.

While we believe that resources must be available in support of adjustment policies, Mr Fraser's telex reflects a soft-line approach towards liquidity and the inflationary consequences which this would imply.

In concluding the Prime Minister might like to commend the final substantive paragraph of Mr Fraser's telex which prescribes policies more to our liking: the lowering of interest rates through realistic fiscal policies. There is however no prospect of a "statement now" on these matters, as is proposed in the Fraser message.

*Yr ever,  
Peter Ricketts*

(P F Ricketts)  
Private Secretary

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FOREIGN AND COMMONWEALTH OFFICE  
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37244 PLEASE FORWARD THE FOLLOWING MESSAGE TO:

THE RIGHT HONOURABLE  
MARGARET THATCHER, MP  
PRIME MINISTER  
EXCELLENCY,

WE ARE SURE YOU MUST BE VERY CONCERNED AT OCCURRENCES IN THE FINAN-  
CIAL MARKETS SINCE THE RECENT NEWS REGARDING THE INTERNATIONAL  
COMMERCIAL BANKING SYSTEM.

WE, TOGETHER WITH OTHER MEMBERS OF THE INTERACTION COUNCIL INTEND  
TO COMMUNICATE WITH YOU AND YOUR COLLEAGUES IN THE ECONOMIC SUMMIT  
MORE FULLY SHORTLY BUT MEANWHILE WE STRESS THAT THE MOST URGENT  
ACTION IS REQUIRED TO SHORE UP CONFIDENCE IN THE INTERNATIONAL  
FINANCIAL SYSTEM. IT IS OUR VIEW THAT THIS WILL NOT BE ADEQUATELY  
AND EFFECTIVELY ACHIEVED UNLESS THE UNDERLYING PROBLEMS ARE  
ADDRESSED. INsofar AS THE INTERNATIONAL BANKING SYSTEM IS CONCERNED,  
THIS WILL INVOLVE A COMPREHENSIVE APPROACH TO THE PROBLEM OF  
INTERNATIONAL DEBT IN A MANNER THAT TAKES INTO ACCOUNT THE CAPACITY  
OF COUNTRIES TO PAY WITHOUT FURTHER REDUCTIONS IN ALREADY DEPRESSED  
LIVING STANDARDS. THERE WOULD NEED TO BE A COMPLETE UNDERSTANDING  
THAT GOVERNMENTS AND THEIR INSTRUMENTALITIES WOULD PROVIDE THE  
LIQUIDITY NEEDED FOR THAT PURPOSE.

IT WILL ALSO INVOLVE A LOWERING OF INTEREST RATES THROUGH REALISTIC  
FISCAL POLICIES WHICH STEADILY AND SUBSTANTIALLY REDUCE THE  
DEFICITS OF ADVANCED INDUSTRIAL COUNTRIES.

WE STRESS THAT IF TIMELY AND EFFECTIVE ACTION IS NOT TAKEN A LACK OF  
CONFIDENCE IN THE FINANCIAL SYSTEM COULD LEAD TO A CRISIS AS  
SEVERE AS THAT WHICH OCCURED IN THE 1930S.

WE URGE CONSIDERATION OF A STATEMENT NOW INDICATING THAT THESE  
MATTERS ARE HIGH ON THE AGENDA FOR THE ECONOMIC SUMMIT AND THAT  
THE PARTICIPANTS WILL COLLECTIVELY TAKE EFFECTIVE ACTION.

BRIONI, 25 MAY 1984

(MALCOLM FRASER)

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Mr Fraser  
Action or not?  
29/5.  
[PS] WEB.  
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ADVANCE COPY.

Head EAs.

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