

MR. COLLES

US ECONOMY AND THE WILLIAMSBURG SUMMIT

Foreign and Commonwealth Secretary's minute of 8 March. I think the Foreign Secretary's ideas spring from somewhat vague and misleading remarks that were made by Don Regan and George Shultz. During the visit of Vice President Bush and Martin Feldstein I brought up the press reports that had appeared intimating that Don Regan was more interested in some exchange control mechanism and intervention than he had hitherto appeared to be.

Feldstein said that both Regan and Shultz were apt to talk in rather vague terms about possible initiatives which might have some desirable consequences. However, they would not be proposing any such initiatives themselves. In fact in some cases Feldstein said they were merely saying there were two sides to the question.

I think much of the Foreign and Commonwealth's Secretary's understandings should be reviewed in that light. For example, it is quite inconsistent with existing decisions by the United States to "do more through the IDA". Indeed they have already announced that they are proposing a substantial reduction in the replenishment for IDA 7. And they have already reduced to about one-third their contributions to the Inter-American Development Bank and the Asian Development Banks. At least these are the proposals of the Administration which need to be ratified by Congress. But it is very unlikely Congress will propose any increase; on the contrary they are more likely to decrease the contributions.

I suspect this will be the main message about aid from San Diego.



ALAN WALTERS  
22 March 1983

MR. WALTERS

cc. Sir A. Parsons  
Mr. Scholar

US ECONOMY AND THE WILLIAMSBURG SUMMIT

Thank you for your minute of 22 March. You suggested that the main message about aid from San Diego would be an American intention to decrease their contributions to IDA and other agencies.

This does not seem to have been the case. Sir Robert Armstrong's report (please ask to see the whole report if you wish) states:

- (a) the increase in quotas in the IMF agreed by the Interim Committee and the extension of the general arrangements to borrow were noted as developments which the Williamsburg Summit could welcome. There was no mention of the idea of a further issue of special drawing rights to help the developing countries;
- (b) on international debt management, there was general agreement that there could not be an agreed master plan for handling problems of debtor countries. The elements in the approach to the problem should be:
  - (1) there should be effective policy adjustments in borrowing countries; IMF conditionality rules were important in this connection;
  - (2) short-term transitional financing should be available from Governments and central banks;
  - (3) in the medium term, resources should be provided through the IMF (subject to conditions on the policies to be followed by borrowing countries), the World Bank and its agencies, bilateral aid programmes, and also (and especially, subject to commercial prudence) from the commercial banks, who would continue to have the major role;
  - (4) the open market trading system should be preserved, and the creation of new trade barriers avoided;

(5) sustained non-inflationary recovery in the industrialised countries would be the greatest contribution those countries could make to the recovery of the developing countries.

A. J. COLES

25 March 1983

cc Sir Anthony Parsons  
Mr. Scholar

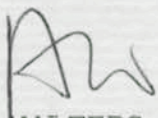
MR. COLES

US ECONOMY AND THE WILLIAMSBURG SUMMIT

I do not think you have interpreted in your memo of 25 March, what I meant to convey in my memorandum of 22 March.

The main point I was making was that the Foreign and Commonwealth Secretary's minute of 8 March gives a misleading impression of the views of Don Regan and George Shultz. The Foreign and Commonwealth Secretary's minute implied that Regan and, to some extent, Shultz were interested in entering into some agreement, however vague, about limiting exchange rate oscillations and using intervention and other techniques to "stabilise" exchange rates. I was told by Martin Feldstein when he visited with Vice President Bush that as far as he knew the United States and the Treasury in particular were very much against exchange rate intervention and maintaining pseudo-fixed or crawling peg parities. Last week I saw Feldstein in Washington and he was very anxious to make it clear that all such speculation, whether in the press or elsewhere, that Regan and Shultz were interested in such intervention in exchange markets was quite false.

The second point I raised was that if aid is discussed at the Summit, and Geoff Littler believes it is a proper subject for discussion at Williamsburg (see para 8 of his memorandum of 23 March to the Chancellor) then it would be in the context of either IDA replenishment, or an IMF "link scheme" issue of additional STRs. Again, the latter was suggested to me in conversation as one of the likely proposals for discussion. Indeed, it comes under (b)(iii) of your memo summarising Sir Robert Armstrong's paper. The link scheme arrangement is quite different from general quota increases or extensions of the GAB.

  
ALAN WALTERS  
11 April 1983

for VC

MR. WALTERS

c. Sir A. Parsons  
Mr. Scholar

US ECONOMY AND THE WILLIAMSBURG SUMMIT

Thank you for your minute of 11 April.

In my minute of 25 March I was concerned simply to deal with your prediction, in your minute of 22 March, of what would be the main message about aid emerging from San Diego (did you mean Williamsburg?). I simply quoted Sir Robert Armstrong's report on the point.

As regards the Foreign and Commonwealth Secretary's minute of 8 March, I have read it again and can find nowhere in it the implication "that Regan and, to some extent, Shultz were interested in entering into some agreement, however vague, about limiting exchange rate oscillations and using intervention and other techniques to stabilise exchange rates".

A. J. COLES

12 April 1983

for VC