

Master

Susat

file

SUNDAY 29 MAY

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Canadian Finance Minister: Both Reagan and Regan pledged to trading system. I would expect Summit to make a statement on protectionism, which would be acceptable. We failed to get dismantling at GATT Ministerial; got no further than saying no new protectionist measures. At OECD Ministers more courageous: "dismantle existing measures as recovery proceeds". A problem of credibility; despite GATT Ministerial, protectionist measures had increased. We need a meaningful commitment. Can it be politically obligatory? Can we monitor trade performance? People don't notify GATT when they undertake border measures which are protectionist in nature. Prosperity will depend on maintaining open markets. Two ways of doing this,

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Regan: Sizeable deficits 1983 and 84. Then a decline. Half deficit is due to recession: 1% on unemployment equals D 27b on deficit. Other half of deficit is structural. Programmes with automatic built in increases. Congress won't act. I will use my veto power on any appropriation which exceeds what we have asked for. A limit to how much you can reduce in deficit by savings on tax increases. Deficit a symptom not a cause. The only answer is recovery. Every extra 1% on forecast recovery = D100 b of the deficit. 2% on would produce a balanced budget. So we aim at solid sustainable recovery. Recovery visible in construction = 77% increase in housing permits = automobiles, appliances, furniture. All typical of recovery. 11,000 small businesses went bankrupt in 1982, but 600,000 started.

Chancellor of the Exchequer: Agrees Regan analysis. Useful to annex our statement to summit declaration. Agree Lambsdorff stress on unemployment. Agree L. on Export Administration Act. Key things to tackle for sustainable growth.

1. Keep inflation going down.
2. Resist and repel protectionism - but don't commit ourselves to what is not credible.
3. Get interest rates down.

High interest rates retarding recovery: effect on debts of LDCs, and the domestic interest rates in Europe. The fact that deficits and interest rates are high agree attempt at eventual reduction in deficit is counter-productive. But show markets not where you are but where you are going; down. Otherwise apprehension in markets will continue.

/RR: I recognise

RR: I recognise interest rates a problem. More psychological than anything else. We have had difficulty in persuading Congress to go along with our programme, but interest rates and inflation have come down.

PT: Nominal interest rates, not real.

RR: We agree that this is a target. Course has been steadily downwards. It's up to Congress. The battle will be on entitlement programmes. We have done what we can to reduce cost of Government. We have reduced increase in costs of one programme from D116 billion to 50 billion.

Shultz: No need for us to be defensive. Interest rates down by 50% since 1981. We are making progress. Only reason why people react to high interest rates is because President has been so fantastically successful in getting inflation. Members will respond to sound policies pursued with persistence and resolution. Deficits bigger than President wants: but tax increase now would be crazy: stop recovery in its tracks. The President has been very courageous and has been doing a hell of a job. Real growth rates of 6 per cent 4th quarter of 1982 - 4th quarter of 1983. A quick fix would be a catastrophe. Trade: put some meat on the bones.

1. Perhaps we should change trade officials with specific plans to fulfil OECD Ministerial. Perhaps monitoring.
2. Get discussions going on trade liberalisation, particularly between developed and developing countries, who are very protectionist.
3. Strengthen GATT.
4. Working on agricultural trade.
5. Need for better rates on all in services and high technology products.

/6. Look

6. Look forward to a new trade liberalisation round in GATT.

7. Trade and finance two sides of coin: have occasional meeting of trade and finance people together.

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AF: Instead of "balanced" say "balanced" (some mistake surely?)

MT: I can live with what RR read out.

RR: A new suggestion from Mitterrand. "Our nations agree strongly balanced INF grant. Should it occur, negotiations will determine level of deployment. Should that not occur the countries concerned will proceed with the planned deployment of the US systems in Europe at the end of 1983.

FM: "It is the wish of the countries ... I don't understand the amendment proposed by MT. Makes new proposal: "Earnest wish of the nations to reach agreement on balanced deployment shortly. He's going to fast? He wants to say: Should this not occur it is well known that there will be deployment at the end of 1983. "It is well know that" is for me a sine que non . Otherwise I am committed to what NATO is saying.

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MT: I agree FM's text.

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RR: Reads text.

MT: Agreed.

FM: Agreed.

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AF: Agreed.

PT: Agreed.

RR: We have a statement. That will head off press statements on disarray. A few language difficulties. Back to economic.

Lambsdorff: We would be happy for Finance Ministers statement to be annexed to declaration.

2. We discussed whether meeting of trade and finance ministers should take place. We agreed no new fora: do it in OECD.
3. On deficits and interest rates. Regan not able to convince us that they are not connected. I fear that interest rates will go up, not down, and perhaps we should say so.
4. Deal with protectionism, through strengthened GATT.
5. Say something about Export Administration Act. Mentioned three times.

/Italian Finance Minister:

Italian Finance Minister:

1. Agree annex statement to declaration.
2. Two small observations on statement - keep for another occasion.
2. We are leaving here with substantial convergence of views on objectives, but with greater confusion on what is needed to make the development of recovery sustained. Not convinced by Regan.

Three contradictory elements:

1. Reagan says deficit gets worse if economic conditions get worse and vice versa. But economic conditions are improving and deficit getting bigger.
2. Confused about relationship between deficits and interest rates.
3. A lack of US willingness to reduce rates or an inability to do so. It's not clear.

RR: No lack of willingness on our part. When we started, interest rates were at record high. I took over Carter's budget. Could not start to do anything until budget 82-83. Even when I had signed tax cut law, it would take a long time for tax cuts to have stimulation effect; and tax cuts were in three instalments. We had inherited the highest tax increases ever under Carter; and in same period deficits soared. Our tax cuts were not until July 1983 brought the level of taxes down below what it was. We are victims of our own success. The solution of inflation has meant that tax yields don't increase as much as are expected. Interest rates went down to 10½, 19 per cent at least. Further reductions waiting for July tax cuts. Opposition pressing to cancel tax cuts, but we won't; we need the incentive. But we want to bring interest rates and deficit down. We have not done badly, and we won't let up.

PT: Energy: we should put our hands out to the oil-producing countries. Discuss future with them. We need security of supply, they need steadiness of prices.

/Nakasone: Relations

Nakasone: Relations with South. They let me know what they expect of Williamsburg.

1. Maintain free trade, oppose protectionism.
2. Industrial countries to open markets to developing countries.
3. International financial institutions to increase aid to ldc's.

FM: At last we have come to main point, on basis of worthwhile text. A few comments and suggestions, on omissions from thematic paper.

1. When one talks of convergence, be clear what it means. One has to have convergence in struggle against inflation. France ardently engaged in struggle. From 14 per cent in 1981 to 8 per cent in 1983 and 5 per cent in 1984. We don't want to be separated from others.
2. Social convergence: coping with unemployment convergence means we support recovery. But we cannot act solely as economists.
3. Won't add anything on interest rates to what has been said by Germans and Italians. Which of us would impose on US in mid 1983 to adopt new taxes or reduce deficits or suddenly change interest rates. Markets not beck and call of US Government. But only natural to say to US leaders - be careful. Real interests rates in US range from 5-7 per cent in short to 8 per cent in long. Unprecedented levels. So ask US to contribute as they can and understand the burden of interest rates.
4. The dollar is the world reserve currency. Not just your domestic problem. Whichever way things go with well or badly dollar goes up. Think of effect of US having to purchase things for dollar. Let's try to bring a little order into this. International liquidity.
5. As far as currency is concerned, agree subject to some reservations. But only chance references to ldc. We are accountable to them, and many others not here. Send them a signal from here to me. There are some idiots who prefer poor Communism to non capitalism: threat of unemployed workers. Don't let Soviet

use ideological war. We need an open approach. Talk about food, energy. India has reached food self sufficiency. We ought to stabilise commodity prices, but the world isn't ready for that yet. Make use of increases in IMF resources. We could do more.

6. Necessary for us to commit ourselves on the question of intervention as agreed at Versailles. Bring our whole weight to steady exchange rates. Not talking about fixed rates; bring order. Be inspired by Bretton Woods: not just do what BW did. Agree conference not possible now, but work towards it. We want to find middle ground, recognising need to move towards greater international monetary order.
7. Let's set up a working group to analyse where protection is occurring, and deal with it. We want society not to confine but to serve the individual. Don't issue statements devoid of meaning. I shall be vigilant tomorrow morning.

AF: I am concerned that our Summit should consolidate expectations and hopes for recovery. We should add credibility to our decisions, so that public opinion will be aware of it and believe in it. Therefore we cannot put aside problems caused by disorder or monetary system. No question of going back to Bretton Woods. Examine difficulties we have met in last 10 years, and learn lessons. They have prevented linkage between north and south. We are at beginning of third industrial revolution.

1. Steam.
2. Electricity and oil.
3. Nuclear, and advanced technology.

Advanced technology will produce more unemployment. A new type of unemployment because it's a transferring from one thing to another. Try and see how we can intervene. Can we just remain attached to a system that does all the things that this has done?

A 7 point plan.

1. ?
2. Recovery.
3. N/S

/RR: Sum

RR: Sum up for Sherpas. Keep it short: 3 double spaced paras.

1. Should values of freedom and democracy
2. Domestic policies - underway, but not flights of fancy.
3. Interest rates and deficits.
4. Unemployment structure as well as gelical.
5. LDC revise trade to ease debt problems.
6. Trade: reverse protectionism and try to further liberalisation.
7. Balanced approach to international financial system.
8. Continue multilateral surveillance for exchange rate stability.  
Annex statement by Finance Ministers.

PT: Fivelines on energy please

HK: When do we eight meet again?

RR: 1955 for 2000. Sliding the schedule 30 minutes.

HK: What tomorrow?

Regan: International debt. Support for IFI. East/West economic relations. Plus the statement.

HK: Sherpas to reflect the issues, including the controversial issues. Find a middle road. Include thoughts I don't necessarily hold.

Nakasone: Science and technology. Turn this into concise plans. I am especially interested in cancer and recombinant DNA.

PT: Ask Sherpas to use thematic paper for inspiration.

RR: Agree. Foreign Ministers to go to press for INF statement.

Schultz: I will help generally on economic side.

THE END

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"6. Our nations ardently desire that an INF negotiation take place shortly, all the more because one knows that, if it were otherwise the countries concerned would go ahead with deployment at the end of the year 1983".

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2. Resist and repel protectionism - but don't commit ourselves to what is not credible.
3. Get interest rates down.

High interest rates retarding recovery: effect on debts of ldc's, and on domestic interest rates in Europe. The fact that deficits and interest rates are high. Agree attempt at eventual reduction in deficit is counter-productive. But show markets not where you are but where you are going; down. Otherwise apprehension in markets will continue.

RR: I recognise interest rates a problem. More psychological than anything else. We have had difficulty in persuading Congress to go along with our programme, but interest rates and inflation have come down.

PT: Nominal interest rates, not real.

RR: We agree that this is a target. Course has been steadily downwards. It's up to Congress. The battle will be on entitlement programmes. We have done what we can to reduce cost of Government. We have reduced increase in costs of one programme from \$116 billion to \$50 billion.

Shultz: No need for us to be defensive. Interest rates down by 50 per cent since 1981. We are making progress. Only reason why people react to high interest rates is because President has been so fantastically successful in getting inflation down. Markets will respond to sound policies pursued with persistence and resolution. Deficits bigger than President wants: but tax increase now would be crazy: stop recovery in its tracks. The President has been very courageous and has been doing a hell of a job. Real growth rate of 6 per cent from 4th quarter of 1982 to 4th quarter of 1983. A quick fix would be a catastrophe. Trade: put some meat on the bones:

1. Perhaps we should change trade officials with specific plans to fulfil OECD Ministerial. Perhaps monitoring.
2. Get discussions going on trade liberalisation, particularly between developed and developing countries, who are very protectionist.



3. Strengthen GATT.
4. Working on agricultural trade.
5. Need for better rates on trade in services and high technology products.
6. Look forward to a new trade liberalisation round in GATT.
7. Trade and finance two sides of coin: have occasional meeting of trade and finance people together.

Lambsdorff:

1. We would be happy for Finance Ministers' statement to be annexed to declaration.
2. We discussed whether meeting of Trade and Finance Ministers should take place. We agreed no new fora: do it in OECD.
3. On deficits and interest rates, Regan not able to convince us that they are not connected. I fear that interest rates will go up, not down, and perhaps we should say so.
4. Deal with protectionism, through strengthened GATT.
5. Say something about Export Administration Act. Mentioned three times here: no US response.

Italian Finance Minister:

1. Agree annex statement to declaration.
2. Two small observations on statement - keep for another occasion.
3. We are leaving here with substantial convergence of views on objectives, but with greater confusion on what is needed to make the development of recovery sustained. Not convinced by Regan. Three contradictory elements:
  1. Regan says deficit gets worse if economic conditions get worse and vice versa. But economic conditions are improving and deficit getting bigger.
  2. Confused about relationship between deficits and interest rates.
  3. A lack of US willingness to reduce rates or an inability to do so? It's not clear.

RR: No lack of willingness on our part. When we started, interest rates were at record high. I took over Carter's budget. Could not start to do anything until budget 82-83. Even when I had signed tax cut law, it would take a long time for tax cuts to have stimulation effect; and tax cuts were in three instalments. We had inherited the highest tax increases ever under Carter; and in same period deficits soared. Our tax cuts have not until July 1983 brought the level of taxes down below what it was. We are victims of our own success. The reduction of inflation has meant that tax yields don't increase as much as are expected. Interest rates went down to 10½, 10 per cent or lower. Further reductions waiting for July tax cuts. Opposition pressing to cancel tax cuts, but we won't; we need the incentive. But we want to bring interest rates and deficit down. We have not done badly, and we won't let up. When markets see we are going to stay the course, rates will come down.

PT: Energy: we should put our hands out to the oil-producing countries. Discuss future with them. We need security of supply, they need steadiness of prices.

Nakasone: Relations with South. They let me know what they expect of Williamsburg:

1. Maintain free trade, oppose protectionism.
2. Industrial countries to open markets to developing countries.
3. International financial institutions to increase aid to ldc's.

FM: At last we have come to main point, on basis of worthwhile text. A few comments and suggestions, on omissions from thematic paper.

1. When one talks of convergence, be clear what it means. One has to have convergence in struggle against inflation. France ardently engaged in struggle. From 14 per cent in 1981 to 8 per cent in 1983 and 5 per cent in 1984. We don't want to be separated from others.
2. Social convergence: coping with unemployment. Convergence means we support recovery. But we cannot act solely as economists.
3. Won't add anything on interest rates to what has been said by Germans and Italians. Which of us would impose on US in mid-1983 to adopt new taxes or reduce deficits or suddenly change

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interest rates. Markets not at beck and call of US Government. But only natural to say to US leaders - be careful. Real interest rates in US range from 5 to 7 per cent at short end to 8 per cent at long. Unprecedented levels. So ask US to contribute as they can and understand the burden of interest rates.

4. The dollar is the world reserve currency. Not just your domestic problem. Whichever way things go, well or badly, dollar goes up. Think of effect on us having to purchase things for dollars. Let's try to bring a little order into this. International liquidity.
5. As far as currency is concerned, agree subject to some reservations. But only chance references to ldc. We are accountable to them, and many others not here. Send them a signal, Deng said to me: "There are some idiots who prefer poor communism to rich capitalism". Threat of unemployed workers. Don't let Soviet win ideological war. We need an open approach. Talk about food, energy. India has reached food self-sufficiency. We ought to stabilise commodity prices, but the world isn't ready for that yet. Make use of increases in IMF resources. We could do more.
6. Necessary for us to commit ourselves on the question of intervention as agreed at Versailles. Bring our whole weight to bear to steady exchange rates. Not talking about fixed rates; bring order. Be inspired by Bretton Woods: not just do what BW did. Agree conference not possible now, but work towards it. We want to find middle ground, recognising need to move towards greater international monetary order.
7. Let's set up a working group to analyse where protection is occurring, and deal with it. We want society not to crush but to serve the individual. Don't issue statements devoid of meaning. I shall be vigilant tomorrow morning.

AF: I am concerned that our Summit should consolidate expectations and hopes for recovery. We should add credibility to our decisions, so that public opinion will be aware of them and believe in them. Therefore we cannot put aside problems caused by disorder or monetary

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system. No question of going back to Bretton Woods. Examine difficulties we have met in last 10 years, and learn lessons. They have prevented linkage between north and south. We are at beginning of third industrial revolution:

1. Steam.
2. Electricity and oil.
3. Nuclear, and advanced technology.

Advanced technology will produce more unemployment. A new type of unemployment because it's a transferring from one thing to another. Try and see how we can intervene. Can we just remain attached to a system that does all the things that this has done?

A 7 point plan.

1. ?
2. Recovery.
3. N/S.

RR: Sum up for Sherpas. Keep it short: 3 double spaced pages.

1. Shared values of freedom and democracy.
2. Domestic policies - recovery under way, but no flights of fancy.
3. Interest rates and deficits.
4. Unemployment, structural as well as cyclical.
5. Ldc: revive trade to ease debt problems.
6. Trade: reverse protectionism and try for further liberalisation.
7. Balanced approach to international financial system.
8. Continue multilateral surveillance for exchange rate stability.  
Annex statement by Finance Ministers.

PT: Five lines on energy please.

HK: When do we eight meet again?

RR: 1955 for 2000. Sliding the schedule 30 minutes.

HK: What tomorrow?

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Regan: International debt. Support for IFI. East/West economic relations. Plus the statement.

HK: Sherpas to reflect the issues, including the controversial issues. Find a middle road. Include thoughts I don't necessarily hold.

Nakasone: Science and technology. Turn this into concrete plans. I am especially interested in cancer and recombinant DNA.

PT: Ask Sherpas to use thematic paper for inspiration.

RR: Agree. Foreign Ministers to go to press for INF statement.

Shultz: I will brief generally on economic side.

THE END

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MR COLES  

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CB/  
PA MUS 2/6

As you will know, I was the notetaker for the plenary sessions of the Economic Summit at Williamsburg. Thanks to the miracles of modern technology, I was able as the discussion went along to make notes which were instantly transmitted to our delegation office and there transcribed.

2. I doubt whether it is necessary for me to prepare a note for record beyond these notes, which may I hope serve as sufficient record of the proceedings.

--- 3. I attach copies of the notes herewith.

4. I am sending copies of this minute and of the notes to the Private Secretaries to the Chancellor of the Exchequer and the Foreign and Commonwealth Secretary.

RA

ROBERT ARMSTRONG

1 June 1983