

①

Ref. A085/1209

MR POWELL

① I think it a mistake to group the European countries in some kind of confrontation. It seems to me not a bad draft. Do you have comments at this stage, please?

Prime Minister

what is the dynamic of the economy? C.D.P.

Bonn Economic Summit: Economic Declaration

29/4

As you know, I visited Bonn this morning for a private discussion of the German draft of the economic declaration with my German colleague.

- 2. I attach a copy of the draft, as it emerged from our discussion. It is rather long, but little if any longer than the economic declaration at the London Summit. It may be somewhat shortened by further redrafting before we see it again in Bonn, but the present draft indicates clearly the lines on which the Germans are thinking.
- 3. Despite its length, I think that it is a good draft, which comprehensively covers the matters which need to be dealt with in the declaration.
- 4. Perhaps its most unusual feature is the inclusion, as paragraph 6, of proposed "objectives" for the individual participants in the Summit (grouping the four European countries under a single heading). This departs from precedent in "naming" individual countries; but it takes the form not of calling upon individual countries to do things but of rehearsing what they have said they will do. Whether the President of the United States and the Prime Minister of Japan in particular will be prepared to accept what is suggested will be interesting to see: each might be willing to do so for the sake of seeing the commitment of the other recorded.
- 5. On the assumption that this, or something very like it, will be the draft on which Personal Representatives work in Bonn, I should be grateful if Departments would let me have, by close of play on Wednesday 1 May, any comments and suggestions which I can take into account during the final drafting session in Bonn.



6. I am sending copies of this minute and the draft to the Private Secretaries to the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer and the Secretary of State for Trade and Industry.

RA

ROBERT ARMSTRONG

29 April 1985

CONQUEROR

III

DRAFT

The Bonn Economic Declaration

From Recovery to Sustained Growth

Conscious of the responsibility which we bear together with other Governments for the future of the world economy and the preservation of natural resources, we, the Heads of State or Government of the seven major industrial nations and the President of the Commission of the European Communities, meeting in Bonn from 2 to 4 May 1985, have discussed the economic outlook, problems and prospects for our countries and the world.

Economic conditions are better than they have been for a considerable time. Since we last met, further progress has been achieved in bringing down inflation and strengthening the basis for growth. The recovery in the industrial countries is spreading to the developing world. The problems of international indebtedness, though far from solved, have been flexibly and effectively addressed.

At the same time, urgent tasks remain. Above all, employment needs to be increased, persistent economic imbalances corrected, responsiveness to economic change improved, and protectionist trends reversed. This requires sustained effort by all countries.

Our discussions have led us to the following conclusions:

I.

1. We agree that the best contribution we can make to a lasting new prosperity in which all nations will share, is to create in our own countries the conditions for sustained non-inflationary growth and higher employment.

2. In the long run, the prosperity of industrial and developing countries is indivisible. We will continue to work with the developing countries in a spirit of true partnership to help them achieve sound growth and financial stability.

3. Open multilateral trade is essential to prosperity, and we therefore urge an early and substantial reduction of barriers to trade. At the same time we will seek to make the monetary system work more efficiently.

4. Economic progress and the preservation of the natural environment are necessary and mutually supportive goals. Effective environmental protection is a central element in our national and international policies.

II.

5. In our own countries, economic and financial policies will be guided by the following principles:

- We will consolidate the progress made in bringing down inflation in order to achieve more balanced growth and increased employment.
- We will maintain monetary and budgetary discipline with a view to stable prices, lower interest rates and more productive investment.
- We will encourage initiative and enterprise so as to release the creative energies of our peoples.
- We will promote greater flexibility in all markets, particularly the labour market.

- We will exploit to the full the opportunities for prosperity and the creation of permanent jobs provided by economic change and technological progress.

6. Building on this common strategy, Heads of State or Government have indicated that they will focus on the following objectives:

- The Government of Canada will continue to give priority to promoting investment and creating jobs in the private sector, removing obstacles to private enterprise and innovation and reducing the budget deficit.

- The Governments of the European Summit countries attach high priority to strengthening the internal dynamism of their economies and to achieving lasting improvement in growth and employment. In all their countries this requires a reduction in the proportion of public spending to Gross National Product (GNP). To this end, they will continue to maintain firm control over spending in order to continue the progress achieved in curbing budget deficits. Where possible and appropriate, they will reduce the burden of taxation. Where budget deficits and the share of public spending in GNP are seriously out of line, budgetary discipline will be strengthened. It is the common objective of all European Summit countries to enhance the flexibility and adaptability of their economies. They will work together with their partners in the European Community to ensure further progress towards creating a truly competitive internal market. They will exercise the responsibility which they share with both sides of industry to increase the

flexibility and the efficient functioning of labour markets and to ensure levels of labour costs conducive to job creation. They will work to improve educational and training systems in order to enhance occupational skills and mobility.

- In order to ensure continuing growth and stability, the Government of Japan will persevere with its policy of budgetary discipline. At the same time, it will continue to strengthen market forces, particularly with a view to increasing investment. Following the significant steps already taken towards liberalisation, the Japanese Government will take further measures to de-regulate financial markets, to internationalise the yen, to facilitate access to its markets for goods and services and to encourage growth in imports.

- The President of the United States of America has confirmed his commitment to work towards a rapid and appreciable cut in public expenditure and thus to achieve a substantial reduction in the budget deficit, as a condition (together with the proposed tax reforms) for ensuring sustained economic recovery in the United States and thus promoting stable growth of the world economy and a balanced expansion of world trade.

III.

7. Sustained growth in world trade, lower interest rates, open markets and continued financing in amounts and on terms appropriate to each individual case, are essential to enable developing countries to achieve sound growth and overcome their economic and financial difficulties. Official development assistance, especially to the poorest

countries, should be maintained and wherever possible increased. The longer-term debt-restructuring agreements between debtor countries and commercial banks are a constructive contribution to financial consolidation. We continue to stand ready, where appropriate, to negotiate multi-year reschedulings of debts to governments and government agencies.

8. In order to achieve sustained economic development, developing countries, for their part, need to follow policies which sustain the confidence of domestic and foreign creditors, mobilise domestic savings and ensure efficient use of resources.

9. We welcome constructive dialogue with the developing countries in the existing international institutions with a view to promoting their economic stability and development. We support the International Monetary Fund and the World Bank Group in their central and complementary roles in this regard. Both institutions must remain equipped with the resources and instruments necessary to fulfil their tasks. We stand ready to discuss an increase of resources available to the World Bank which may be necessary in the coming years.

10. We are deeply concerned about the plight of African countries. We welcome the positive response from our citizens and from private aid organisations as well as the substantial assistance provided by the governments of many countries. Further efforts are needed by all countries in a position to contribute. We shall continue to supply food assistance to meet the immediate need. At the same time, we shall continue to help African countries fully to exploit their economic potential and to develop a long-term food strategy. We are ready to discuss with the countries concerned, and with the appropriate international

institutions, support for measures to develop agriculture and rural areas, to ensure a more effective system of forecasting potential food shortfalls, to strengthen the incentives for the production and distribution of food and to halt desertification.

IV.

11. Protectionism does not solve problems: it creates them. We need new initiatives for strengthening the open multilateral trading system. We strongly endorse the agreement of OECD Ministers to implement in full the existing trade liberalisation programmes, and to propose to the Contracting Parties in the GATT that a preparatory meeting should be held before the end of this summer to reach a broad consensus on subject matter and modalities of a new GATT round to begin [in early 1986] [as soon as possible]. Full consideration must be given to the interests of developing countries in any new GATT round.

12. We invite Finance Ministers to complete before the end of June 1985 their current work on ways to improve the functioning of the monetary system, and to put forward proposals to be discussed in the first instance at the next meeting of the Interim Committee of the IMF. A further discussion should take place at a subsequent [special] meeting of the Interim Committee.

V.

13. New approaches and strengthened international co-operation are essential to anticipate and prevent damage to the environment, which knows no national frontiers. We shall work to achieve effective solutions to pressing environmental problems such as acid rain and air pollution for motor vehicles and all other significant resources. We

shall also vigorously address other concerns such as climatic change, the effects on the ozone layer and the management of toxic chemicals and hazardous wastes. The protection of soils, fresh water and the sea, in particular of regional seas, must be strengthened.

14. We shall harness the mechanisms of the market to solve environmental problems. We shall develop and apply the "polluter pays" principle more widely. Science and technology must contribute to reconciling environmental protection and economic growth. But high environmental standards can provide incentives for innovation and cost-effective technologies which are clean and efficient in the use of resources.

15. We shall set up a group to study the development of internationally consistent techniques and practices of environmental measures, which are essential for effective international co-operation in the protection of the environment. We urge our research institutions to expand their co-operation in this area both with each other and with the appropriate international organisations.

16. We welcome the contribution made by Environment Ministers and by the Technology, Growth and Employment Working Group to closer international co-operation on environmental matters. We shall focus our co-operation within existing international bodies, especially the OECD. We shall work with developing countries for the avoidance of environmental damage and disasters world-wide.

VI.

17. We welcome the positive responses of the Members States of the European Space Agency (ESA), Canada and Japan to the invitation of the President of the United

States to co-operate in the United States Manned Space Station Programme on the basis of a genuine partnership and a fair and appropriate exchange of information, experience and technologies. Discussions on intergovernmental co-operation in development and utilisation of permanently manned space stations will begin promptly. We have noted the conclusions of the ESA Council on the need for Europe to maintain and expand its autonomous capacity in space activity, and on the long-term European Space Plan and its objectives.

VII.

18. We note the report by the Working Group on Technology, Growth and Employment on work in the areas of co-operation identified after the Versailles Summit and invite the Group to complete its review by the end of the year. We welcome the positive contribution which the Ministerial Conference on "Technological Development and Employment" held in Venice has made towards wider acceptance of the role of technological change in promoting growth and employment. We also welcome the results of the Rambouillet Conference on Bioethics and thank the Federal Republic of Germany for its willingness to host a symposium on neurobiology in 1986.