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Ref. A084/900

PRIME MINISTER

London Economic Summit: Thematic Paper

The preparations for the substantive discussions at the Economic Summit are following the same pattern as those for the Williamsburg Summit. Following a general discussion among Personal Representatives last month (reported in my minute of 20 February (A084/588)) we undertook to prepare the first draft of a thematic paper for discussion at the next meeting early in April. The draft would be revised in the light of that discussion, with a view to a further discussion in mid-May, at which a text would be agreed in detail for submission to Heads of State or Government as a framework for their discussion at the Summit.

2. I now attach, for your approval, a first draft of a thematic paper, which has been agreed in discussion with the Foreign and Commonwealth Office, the Treasury and the other Departments concerned. I should like to circulate this to other Personal Representatives early next week.

3. I would hope to produce, before the mid-May meeting, the first draft of a Summit declaration. We are not committed to circulating a draft declaration to other countries before the Summit itself; but equally we are not committed to not doing so, though the presumption is that we are following the Williamsburg precedents. I think that we should take no decision on whether to circulate a draft declaration to other countries for discussion before the Summit until after the April meeting of Personal Representatives and until we have a draft in our own hands.

4. I am sending copies of this minute and of the draft thematic paper to the Foreign and Commonwealth Secretary and the Chancellor of the Exchequer.

REA

ROBERT ARMSTRONG

21 March 1984

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DRAFT

LONDON ECONOMIC SUMMIT  
7-9 JUNE 1984

THEMATIC PAPER

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Cabinet Office

21 March 1984

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Introduction

1. The London Summit forms part of a continuing process of consultation among the major economies. Through successive recent Summits, governments have worked to bring down levels of inflation, nationally and internationally, to promote soundly-based growth in their own countries and to spread the benefits more widely, and to promote greater stability in international monetary and exchange conditions. As we approach the mid 1980s, the London Summit provides a vantage-point from which to review and chart policies to guide the major industrialised economies successfully into the second half of the decade.

2. The main concerns in the years ahead are likely to be: to reinforce the basis for enduring growth, transcending the customary cyclical recovery phases without provoking a resurgence of inflationary pressures; to create the conditions for a sustained improvement in employment, especially for the young; to strengthen and liberalise the international trade system; to improve the prospects for managing the international debt problem, especially by restoring conditions for stable financial flows to non-industrialised countries; and to co-operate with the wide range of those countries in their efforts to place their economies on a more secure and self-reliant basis. The Summit countries share a profound commitment to the fundamental values of political liberty and the free market system, with justice and responsibility. They are convinced that these principles alone provide a sure foundation for long term economic development.

Macroeconomic Background

3. Over the past year the recovery in the industrialised nations, discerned at Williamsburg, has strengthened and deepened. In many respects the recovery is more soundly-based than in some previous cycles, founded as it is upon real and often painful structural changes against a background of firm fiscal and monetary policies in most countries. Nevertheless many countries, including relatively advanced economies with substantial debt burdens as well as endemically low income countries, are still encountering severe difficulties. In considering the contribution which the Summit countries can best make to help these countries, it is essential to recognise the wide diversity of their circumstances and requirements.

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4. The principal features of macroeconomic developments over the past year can be summarised as -

- 4.1 - growth has revived strongly in North America, the United Kingdom and Japan;
- 4.2 - the recovery has also strengthened in parts of continental Europe and the other industrialised nations but progress has been less strong and more uneven;
- 4.3 - recovery has been accompanied by productivity gains but has so far had only limited impact on employment. Experience on job creation has varied widely in the Summit countries;
- 4.4 - significant success has been achieved in lowering inflation rates, although they remain high in some individual countries;
- 4.5 - underlying structural budget deficits have tended to rise in North America but good progress has been made in other countries in bringing about a reduction, reflecting both strict control of public spending and, where necessary, increases in taxes;
- 4.6 - there has been a perceptible revival in world trade, with a marked rise in the imports of some Summit countries whose recovery has proceeded more rapidly;
- 4.7 - exchange rates were dominated until the turn of the year by pressure from a strong dollar, although this has recently fallen; further movements are possible between now and the Summit;
- 4.8 - nominal interest rates have shown little overall change since Williamsburg and real rates remain historically high in a number of countries;

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4.9 - the growth of monetary aggregates in Summit countries, despite some volatility, has on average slowed after the rapid rises early last year, and is now more nearly in line with the rise in nominal income;

4.10 - most industrial countries have seen an improvement in their current balance of payments, but the overall position of Summit countries has moved from broad balance in aggregate to a significant deficit, as a result of the very large United States deficit;

4.11 - most other countries have reduced their current account deficits, benefitting from a recovery in their export markets and rising commodity prices. Nevertheless many of the debtor countries among them still face the consequences of import reductions, substantial debt servicing costs, increased political and social strains and a level of bank lending which is low by the standards of a few years ago;

4.12 - the future confronting endemically low-income countries remains daunting. Levels of official aid are constrained by budgetary pressures in donor countries and the outcome of IDA 7 will disappoint many governments;

4.13 - in particular, the situation in parts of sub-Saharan Africa is profoundly worrying, compounded by natural disasters, and could prove to be a human catastrophe on a very large scale unless action is taken;

4.14 - the flexible strategy on debt evolved over the past eighteen months has so far coped successfully with the difficulties of the major debtor countries. The strategy has involved substantial, co-ordinated support measures by creditor governments, international financial institutions and private banks and severe adjustment by debtor countries. Nevertheless major problems and risks still remain in both the short and medium term;

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- 4.15 - some progress has been made in implementing the commitments on resisting and reversing protectionism made last year at the OECD Ministerial meeting and at Williamsburg. Most Summit countries have agreed steps to accelerate implementation of the Tokyo Round and to reduce still further quotas on imports from the poorest countries;
- 4.16 - nevertheless, protectionist pressures in the industrialised countries have not abated, and have been linked in some cases with a high exchange rate and growing trade deficit. There has been little movement among the newly industrialised countries and others in the course of industrialisation to dismantle their own trade barriers or to reduce internal constraints upon competition;
- 4.17 - oil prices have remained relatively stable but the market balance is still fragile, poised between the twin dangers of over-production or sharply reduced supplies due to political events.

Prospects

5. Most forecasters expect that on present policies the recovery in activity in the Summit countries should continue over the next year or so -
- 5.1 - output in North America may rise more slowly after the rapid recent increases but activity in Japan and the European economies should gradually strengthen. A phased recovery of this kind can be a helpful basis for sustained growth;
- 5.2 - unemployment seems likely to fall further in North America but the recovery may not be rapid enough to bring an early sharp reduction elsewhere;
- 5.3 - the moderate pace of recovery in activity should prevent an early resurgence of inflation but prices could be rising more rapidly in the US. Others may either manage to keep inflation close to present levels or achieve some reduction;

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- 5.4 - world trade seems likely to rise rather faster than the recovery in activity;
- 5.5 - the Summit group as a whole, and particularly the US, seems likely to remain in current deficit with the rest of the world - in contrast to their traditional surplus position;
- 5.6 - rising activity and firm fiscal policies should help curb budget deficits in most Summit countries, although in the US the structural deficit may remain at a high level;
- 5.7 - prospects for interest rates are uncertain. In the US, more moderate output growth could help check interest rate pressures but any recovery in inflation - particularly if allied to concern about financing the budget deficit - could work in the opposite direction. Elsewhere, further progress in curbing inflation and budget deficits should ease interest rate pressures;
- 5.8 - exchange rate prospects are also uncertain. The growing US current deficit, particularly if coupled with faster inflation, could put further downward pressure on the dollar although a continued high rate of return on assets in the US could be an offsetting factor;
- 5.9 - rising exports and commodity prices are likely to help poor non-oil countries to service their debts, increase imports and begin to rebuild their reserves;
- 5.10 - the prospect of only a modest increase in energy demand should help towards achieving stable nominal oil prices, though resulting limits on the revenues of oil producers will reduce the scope for import growth in oil producing countries;

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5.11 - in the medium-term, the prospects for sustained recovery depend on avoiding a resurgence of inflation or interest rates, achieving a strong recovery in investment and maintaining the growth of world trade on which the prospects for poor countries in particular depend.

Medium Term Objectives and Policies

6. Increased confidence and economic recovery offer the opportunity to move to a period of sustained growth. But if this is to be achieved, Summit countries need to set themselves a common range of medium-term objectives, entailing a wide range of interrelated policies, and to take account of the impact of their policies on each other and on the rest of the world. The objectives can be summarised as -

6.1 - to continue with prudent monetary and fiscal policies, including strict control of public expenditure, aimed at still lower rates of inflation, especially through firm action by countries with above-average rates;

6.2 - to reduce further both nominal and real interest rates. This mainly entails further progress to reduce inflationary expectations and resolute action to put structural budget deficits onto a sustainable basis;

6.3 - to devote greater attention to reducing the structural obstacles to higher employment by encouraging labour mobility and industrial adaptation and by discouraging short term sectoral support measures. As demand expands, it will be particularly important to ensure that wherever possible the unemployed are drawn into productive employment; this will also reduce the strains on public expenditure from high social security provisions;

6.4 - to promote the development of new technology and a more rapid and widespread acceptance of technological change, recognising its importance to long term growth;



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- 6.5 - to promote conditions conducive to productive investment and private enterprise, especially among innovative small businesses;
- 6.6 - to consolidate the basis for sustained non-inflationary growth and job creation by renewed practical efforts to liberalise trade and to consolidate the open trading system;
- 6.7 - with this aim in view, to complete current trade liberalisation programmes, in cooperation with the rest of the world, and to agree with them on the need for new multilateral trade negotiations in the second half of the decade;
- 6.8 - to maintain adequate flows of resources to the rest of the world, taking into account the diversity of their requirements, and in particular to stimulate the development and application of practical measures, useable by people on the ground, to improve their own environment in a fashion that conserves renewable resources for the future, enhances indigenous food and energy production, and creates conditions where populations move towards stability;
- 6.9 - to find ways of increasing the flow of private investment, through the removal of barriers to capital flows in industrial countries and by encouraging individual countries to create a climate of confidence for investment;
- 6.10 - to adapt and improve the operations of the international financial system. This entails creating a more stable medium term financial environment by prudent policies among the major reserve currency countries, providing a consistent flow of funding to the international financial institutions, and maintaining adjustment programmes for non-industrialised countries beyond the short term;

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- 6.11 - to take due account of the political and social capacity of debtor countries to sustain a long period of severe adjustment, while maintaining the necessary conditionality and discipline which will be the only long term way in which they will successfully surmount their problems;
- 6.12 - to pursue policies, wherever possible, best designed to avoid sharp movements in either direction in international oil markets;
- 6.13 - to enhance technological cooperation and to make greater efforts to secure an internationally accepted set of scientifically based conclusions about the effects of air and water pollution on the environment and about the necessary countermeasures.

Immediate Measures

7. In order to attain these objectives, Summit countries can agree on the following range of immediate measures -

- 7.1 - to reinforce present surveillance procedures and seek further progress where necessary on prudent fiscal and monetary policies with a view to achieving reduced levels of inflation and interest rates and greater exchange rate stability;
- 7.2 - to note, with approval, the progress report of Finance Ministers on their consideration of the operations of the international monetary system and the work of G10 Ministers on exchange rates, surveillance, international liquidity and the role of the IMF;
- 7.3 - to invite Finance Ministers to take forward these studies in the appropriate organisations and develop an assessment for wider discussion with industrialised and other nations, and to report to the next Economic Summit;

7.4 - to invite Finance Ministers or their representatives to review the success of the present debt strategy and to examine how this can best be placed on a secure and internationally acceptable medium term basis. These consultations could cover inter alia -

7.4.1 -the problems of debt bunching, maturity patterns, the availability of new bank lending and the pressures on official export credit agencies;

7.4.2 -the possibility of an increased role for the World Bank, for example some expansion of facilities and loan techniques, including co-financing and increased structural lending, and ways of ensuring adequate resources for IDA;

7.4.3 -encouragement to the governments of industrialised countries to remove the remaining barriers to outward direct investment to promote development and the creation of a climate of investment confidence by non-industrialised countries, studying the various experiences of these countries in promoting successful development;

7.4.4 -closer international co-operation between central bank supervisory authorities and the wider dissemination of information;

7.4.5 -the readiness of the major debtors to honour their debts and the implications for resource transfers of the heavy debt service burden which individual countries face;

7.5 - [to note [with approval] the decision taken at the meeting of OECD Ministers on 18 May 1984 concerning the initial phase of the OECD and Williamsburg commitments and the OECD Secretary General's initiative], and to urge all trading countries to resist continuing protectionist pressures and to seek opportunities to reduce barriers to trade;

- 7.6 - to invite Trade Ministers to promote at the GATT Contracting Parties meeting in November 1984 a successful outcome of the work programme laid down at the GATT Ministerial meeting in November 1982; and to broaden consultations with Contracting Parties and with the Director General with a view to working towards a high level meeting of GATT before the end of 1985 to consider launching a new round of multilateral trade negotiations, on the basis of clearly defined objectives and guidelines, early in the second half of the decade;
- 7.7 - to invite governments to examine further measures to reduce structural rigidities to sustained growth, in particular by encouraging industrial adaptation to technological change and greater labour mobility, and thus maximising job creation opportunities and by increasing public understanding and acceptance of the need for advanced technical development;
- 7.8 - to note, with approval, the second report of the Working Group on Technology, Growth and Employment, to endorse the progress made in the 18 areas of co-operation, and to invite the Group to pursue further work on technology and the environment, adaptation to technological change and the relationship between technology and trade, and to report to the next Economic Summit;
- 7.9 - to note the initiative of the Japan Foundation on Life Sciences and Mankind and the proposals of the US government for a manned space station and to pursue follow-up discussions as appropriate;
- 7.10 - to note, with approval, the continuing work on East/West economic relations in the appropriate organisations and to endorse the need to keep monitoring the process.

U. S. Policy

Deficit — constraining public expenditure

Protectionism

- Open - Capital markets

- Int. Trade

FileCHANCELLORFROM: J.G.LITTLER  
DATE: 20 MARCH, 1984Economic Secretary  
Sir P.Middleton  
Sir T.Burns  
Mr.Unwin  
Mr.Battishill  
Mr.Lavelle  
Mr.Mountfield  
Mr.Bottrill  
Mr.PeretzLONDON ECONOMIC SUMMIT

For the meeting which the Prime Minister is holding with you and the Foreign Secretary on Friday, you should have, probably under a short note to be circulated by Sir Robert Armstrong, the latest draft of the "Thematic Paper", reflecting the late February discussions among officials of the participating countries. Mr. Bottrill is preparing some notes on particular aspects of this, and we will put forward a brief of points to make in the light of the discussion you are to hold with some of us tomorrow morning.

..... 2. Meanwhile, I attach a copy of the latest (probably for this final) draft "Thematic Paper" and also, for convenience, a copy of the Williamsburg Communiqué.

3. The Thematic Paper is rather long and somewhat repetitive. It shows marks of its Committee origin and lacks highlights, but that is probably both inevitable and sensible at this stage, when we do not want to force the pace and try to impose a shape which does not command a consensus. I think it contains pegs on which to hang our particular interests, along with a good deal of material which will eventually be discarded.

General UK Objectives

4. We can expect a general desire among the Summit participants, which we would share, to take credit for and build upon the economic strategy developed at Versailles and Williamsburg.

5. As far as the public outcome is concerned, there are several audiences. Some of the main threads might be:

(a) All audiences:

- (i) Confident message on the progress of world recovery.
- (ii) Reaffirmation of basic strategy of sustainable, non-inflationary growth.
- (iii) Structural change, greater freedom and less rigidity: in labour, industry, trade, finance.

(b) UK domestic:

- (i) A competently managed and relevant Summit.
- (ii) To show UK relative performance in a favourable light.
- (iii) To show that we are trying to get others (especially the United States and Japan) to mend their ways; but the Prime Minister will presumably not want a publicly confrontational Summit, especially ahead of the US Election.

(c) World; much is included already above, but there is need also to show:

- (i) Recognition of third world problems.

Specific Objectives

6. I think the following are the main areas in which we would like to see something done. I cover them not in order of importance, but rather in diminishing order of clarity.

7. First, protectionism. It may well be that the most important single thing under this heading is to get President Reagan to recommit himself publicly to resisting the tide of protectionist pressures in the United States, which is building up - in some areas being deliberately orchestrated - for the last few months before the Election. As to details, the position of the UK Government itself will become clearer when the postponed Ministerial discussion in E(S) has taken place early next month. Meanwhile, the Summit will be taking place between two other actual or potential international moves:

- the OECD Ministerial Council in May will have the general subject on its agenda and may prove to be an opportunity for both a firming-up of the "standstill" and "rollback"

arrangements and an opportunity to take further steps to diminish the competition in export subsidies, especially in mixed aid and trade credit;

- after the Summit there could be further moves towards a new GATT round;

The Summit could applaud the first and give encouragement in appropriate terms to the second.

8. Secondly, Japan. It is important to keep up pressure on Japan because this is what, slowly and haltingly, they have been responding to in recent years. I have tried on both Sir Anthony Rawlinson and last week the OECD Secretary-General the idea that we could find more to go for in Japanese non-tariff barriers. The problem is to identify in sufficiently clear terms what we mean, in areas which the Japanese Government can do something about. Many of the problems are pervasive Japanese cultural and traditional ways of conducting business, which foreigners find it difficult to break into. My own judgment is that the single most important thing we could get from Japan is a stronger yen exchange rate, and that the best move to this end will be (and the United States are already pursuing this strongly in bilateral discussions) to get the Japanese to open their capital market much more to inflow of funds. I am inclined to recommend this as a better direct target than specific trade barriers.

9. Thirdly, international debt. I apologise for not reporting previously, as promised. I had been hoping to incorporate any wisdom from Sir Alan Walters, but have not yet had a response from him. Meanwhile, I reduced the bones of the long paper which you saw to a discussion .... document for my official Summit colleagues, of which I attach a copy. Their initial reaction was appreciative, but in the very short discussion we have had so far among G.5 Deputies, it became plain that the United States are likely to resist attempts to keep up, let alone increase, the scale of IBRD operations; and US and Germany both dislike the World Bank Bank idea. For the Summit, I think the question is whether, between now and then and making use of one or two G.5 and G.10 occasions which you will be attending, we can build on the "possible action" of the attached note something respectable for the communique. In any case, continuing work on this should lie with Finance Ministers.



10 Fourthly, international monetary reform. Progress among G.10 Deputies has been painfully slow under poor Italian chairmanship at official level. For the Summit, I think there are two points:

- interest of the Summit leaders in the question is a response to the attempt by President Mitterrand to launch steps towards a major international conference. The object of others is to stop that bandwagon, which has really never begun to roll. I think we have to be looking for a formula which notes that Finance Ministers of G.10 have the subject in hand;
- in substance, what tends to block progress of any kind and sour some of the discussion is the attitudes of Sprinkel and Reagan, in regarding the exchange rate as something which does not matter to them at all and - beyond that - failing to acknowledge that there is any sense in which United States policy on domestic matters is a legitimate matter of concern for others.

11. This is linked with the immediately following point.

12. Finally, United States domestic policies. It seems to me that the way in which this has to be handled, or the extent to which it figures, will depend on events between now and the Summit. We plainly have to accept that no further action on the US budget deficit is likely this side of the Election. Something has been done (not yet with complete agreement) to set in hand fairly modest expenditure reductions and marginal tax increases over the next three years. It may be that the Summit will have to applaud this indication of a move in the right direction. If, by the time of the Summit, US interest rates are troublesomely higher, it will be difficult to avoid some clashes, and they could even be desirable. Whether the value of the dollar has moved significantly will also be relevant. But our main difficulty remains that the United States authorities appear to believe genuinely, as well as for public consumption, that they do not face problems resulting from their own domestic policies which threaten their own continuing economic recovery. I see this subject as one for continuing battle in G.5, probably worth making an issue in private discussion at the Summit, but difficult to handle publicly with the US Election only six months ahead.

Points to Avoid

13. I would like to suggest one point to avoid. There is always a danger of the whole Summit process being bureaucratized. This happened during the era of President Carter. President Reagan tried to break the mould, and the Prime Minister has also expressed the desire for a workmanlike and unbureaucratic Summit. With this in mind, it can be helpful for the Summit occasionally to urge Finance Ministers, international institutions, or whomever appropriate, to get on with some particular task. But it is a pity to establish the practice that these groups or bodies then have to report back to the Summit. I have tried to argue this point - not with much success - among official colleagues. I think the Prime Minister might be more receptive.

(J. G. LITTLER)

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SECOND DRAFT

LONDON ECONOMIC SUMMIT  
7-9 JUNE 1984

THEMATIC PAPER

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Cabinet Office

16 March 1984

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Introduction

1. The London Summit forms part of a continuing process of consultation among the major economies. Through successive recent Summits, governments have worked to bring down levels of inflation, nationally and internationally, to promote soundly-based growth in their own countries and to spread the benefits more widely, and to promote greater stability in international monetary and exchange conditions. As we approach the mid 1980s, the London Summit provides a vantage-point from which to review and chart policies to guide the major industrialised economies successfully into the second half of the decade.

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- 4.11 - developing countries as a whole have reduced their current account deficits, benefitting from a recovery in their export markets and rising commodity prices. Nevertheless many of the debtor countries among them still face the consequences of import reductions, substantial debt servicing costs, increased political and social strains and a level of bank lending which is low by the standards of a few years ago;
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- 5.8 - exchange rate prospects are also uncertain. The growing US current deficit, particularly if coupled with faster inflation, could put further downward pressure on the dollar although a continued high rate of return on assets in the US could be an offsetting factor;
- 5.9 - rising exports and commodity prices are likely to help non-oil developing countries to service their debts, increase imports and begin to rebuild their reserves;
- 5.10 - weak oil prices and the prospect of only a modest increase in energy demand will limit the revenues of oil producers who seem likely to need to continue to keep a firm check on their import growth;

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5.11 - in the medium-term, the prospects for sustained recovery depend on avoiding a resurgence of inflation or interest rates, achieving a strong recovery in investment and maintaining the growth of world trade on which the prospects for developing countries in particular depend.

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- 6.7 - with this aim in view, to complete current trade liberalisation programmes, in cooperation with the developing countries, and to agree with them on the need for new multilateral trade negotiations in the second half of the decade;
- 6.8 - to maintain adequate flows of resources to developing countries as a whole, taking into account the diversity of their requirements. The overwhelming requirement in the developing world is to stimulate the development and application of practical measures, useable by people on the ground to improve their own environment in a fashion that conserves renewable resources for the future, enhances food production, and creates conditions where populations move towards stability;
- 6.9 - in particular to find ways of increasing the flow of private investment, through the removal of barriers to capital flows in industrial countries and by encouraging individual developing countries to create a climate of confidence for investment;
- 6.10 - to adapt and improve the operations of the international financial system. This entails creating a more stable medium term financial environment by prudent policies among the major reserve currency countries, providing a consistent flow of funding to the international financial institutions, and maintaining adjustment programmes for developing countries beyond the short term;

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- 6.11 - to take due account of the political and social capacity of debtor countries to sustain a long period of severe adjustment, while maintaining the necessary conditionality and discipline which will be the only long term way in which they will successfully surmount their problems;
- 6.12 - to pursue policies, wherever possible, best designed to avoid sharp movements in either direction in international oil markets;
- 6.13 - to enhance technological cooperation and to make greater efforts to secure an internationally accepted set of scientifically based conclusions about the effects of air and water pollution on the environment, and about the necessary countermeasures.

Immediate Measures

7. In order to attain these objectives, Summit countries can agree on the following range of immediate measures -

- 7.1 - to reinforce present surveillance procedures and seek further progress where necessary on prudent fiscal and monetary policies with a view to achieving reduced levels of inflation and interest rates and greater exchange rate stability;
- 7.2 - to note, with approval, the progress report of Finance Ministers on their consideration of the operations of the international monetary system and the work of G10 Ministers on exchange rates, surveillance, international liquidity and the role of the IMF;
- 7.3 - to invite Finance Ministers to take forward these studies in the appropriate organisations and develop an assessment for wider discussion with other developed and developing nations, and to report to the next Economic Summit;

7.4 - to invite Finance Ministers or their representatives to review the success of the present debt strategy and to examine how this can best be placed on a secure and internationally acceptable medium term basis. These consultations could cover inter alia -

7.4.1 -the problems of debt bunching, maturity patterns, the availability of new bank lending and the pressures on official export credit agencies;

7.4.2 -the possibility of increased role for the World Bank, for example some expansion of facilities and loan techniques, including co-financing and increased structural lending, and ways of ensuring adequate resources for IDA;

7.4.3 -encouragement to the governments of industrialised countries to remove the remaining barriers to outward direct investment to promote development and the creation of a climate of investment confidence by developing countries, studying the various experiences of these countries in promoting successful development;

7.4.4 -closer international co-operation between central bank supervisory authorities and the wider dissemination of information;

7.4.5 -the readiness of the major debtors, as displayed at the Quito Conference, to honour their debts and the implications for resource transfers of the heavy debt service burden which individual countries face;

7.5 - to invite governments to examine further measures to reduce structural rigidities to sustained growth, in particular by encouraging industrial adaptation to technological change and greater labour mobility, and thus maximising job creation opportunities;

- 6 - [to note [with approval] the decision taken at the meeting of OECD Ministers on 18 May 1984 concerning the initial phase of the OECD and Williamsburg commitments and the OECD Secretary General's initiative], and to urge all trading countries to resist continuing protectionist pressures and to seek opportunities to reduce barriers to trade;
- 7.7 - to invite Trade Ministers to promote at the GATT Contracting Parties meeting in November 1984 a successful outcome of the work programme laid down at the GATT Ministerial meeting in November 1982; and to broaden consultations with Contracting Parties and with the Director General with a view to working towards a high level meeting of GATT before the end of 1985 to consider launching a new round of multilateral trade negotiations, on the basis of clearly defined objectives and guidelines, early in the second half of the decade;
- 7.8 - to note, with approval, the second report of the Working Group on Technology, Growth and Employment, to endorse the progress made in the 18 areas of co-operation, and to invite the Group to pursue further work on technology and the environment, adaptation to technological change and the relationship between technology and trade, and to report to the next Economic Summit;
- 7.9 - to note the initiative of the Japan Foundation on Life Sciences and Mankind and the proposals of the US government for a manned space station and to pursue follow-up discussions as appropriate;
- 7.10 - to note, with approval, the continuing work on East/West economic relations in the appropriate organisations and to endorse the need to keep monitoring the process.



# 1983 Summit of Industrialized Nations

Williamsburg, Virginia 23187  
May 28-31, 1983

FOR IMMEDIATE RELEASE

MAY 30, 1983

## WILLIAMSBURG DECLARATION ON ECONOMIC RECOVERY

Our nations are united in their dedication to democracy, individual freedom, creativity, moral purpose, human dignity, and personal and cultural development. It is to preserve, sustain, and extend these shared values that our prosperity is important.

The recession has put our societies through a severe test, but they have proved resilient. Significant success has been achieved in reducing inflation and interest rates; there have been improvements in productivity; and we now clearly see signs of recovery.

Nevertheless, the industrialized democracies continue to face the challenge of ensuring that the recovery materializes and endures, in order to reverse a decade of cumulative inflation and reduce unemployment. We must all focus on achieving and maintaining low inflation, and reducing interest rates from their present too-high levels. We renew our commitment to reduce structural budget deficits, in particular, by limiting the growth of expenditures.

We recognize that we must act together and that we must pursue a balanced set of policies that take into account and exploit relationships between growth, trade, and finance, in order that recovery may spread to all countries, developed and developing alike.

In pursuance of these objectives, we have agreed as follows:

(1) Our governments will pursue appropriate monetary and budgetary policies that will be conducive to low inflation, reduced interest rates, higher productive investment and greater employment opportunities, particularly for the young.

(2) The consultation process initiated at Versailles will be enhanced to promote convergence of economic performance in our economies and greater stability of exchange rates, on the lines indicated in an annex to this Declaration. We agree to pursue closer consultations on policies affecting exchange markets and on market conditions. While retaining our freedom to operate independently, we are willing to undertake coordinated intervention in exchange markets in instances where it is agreed that such intervention would be helpful.

(3) We commit ourselves to halt protectionism, and as recovery proceeds to reverse it by dismantling trade barriers. We intend to consult within appropriate existing fora on ways to implement and monitor this commitment. We shall give impetus to resolving current trade problems. We will actively pursue the current work programs in the General Agreement on Tariffs and Trade (GATT) and Organization for Economic Cooperation and Development, including trade in services and in high technology products. We should work to achieve further trade liberalization negotiations in the GATT, with particular emphasis on expanding trade with and among developing countries. We have agreed to continue consultations on proposals for a new negotiating round in the GATT.

(4) We view with concern the international financial situation, and especially the debt burdens of many developing nations. We agree to a strategy based on: effective adjustment and development policies by debtor nations; adequate private and official financing; more open markets; and worldwide economic recovery. We will seek early ratification of the increases in resources for the International Monetary Fund and the General Arrangements to Borrow. We encourage closer cooperation and timely sharing of information among countries and the international institutions, in particular between the International Monetary Fund (IMF), the International Bank for Reconstruction and Development (IBRD), and the GATT.

(5) We have invited Ministers of Finance, in consultation with the Managing Director of the IMF, to define the conditions for improving the international monetary system and to consider the part which might, in due course, be played in this process by a high-level international monetary conference.

(6) The weight of the recession has fallen very heavily on developing countries and we are deeply concerned about their recovery. Restoring sound economic growth while keeping our markets open is crucial. Special attention will be given to the flow of resources, in particular official development assistance, to poorer countries, and for food and energy production, both bilaterally and through appropriate international institutions. We reaffirm our commitments to provide agreed funding levels for the International Development Association. We welcome the openness to dialogue which the developing countries evinced at the recent conferences of the Non-Aligned Movement in New Delhi and the Group of 77 in Buenos Aires, and we share their commitment to engage with understanding and cooperation in the forthcoming meeting of the United Nations Conference on Trade and Development in Belgrade.

(7) We are agreed upon the need to encourage both the development of advanced technology and the public acceptance of its role in promoting growth, employment and trade. We have noted with approval the report of the Working Group on Technology, Growth and Employment which was set up at Versailles last year, and commend the progress made in the 18 cooperative projects discussed in that report. We will follow the implementation and coordination of work on these projects, and look forward to receiving a further report at our next meeting.

(8) We all share the view that more predictability and less volatility in oil prices would be helpful to world economic prospects. We agree that the fall in oil prices in no way diminishes the importance and urgency of efforts to conserve energy, to develop economic alternative energy sources, to maintain and, where possible, improve contacts between oil-exporting and importing countries, and to encourage the growth of indigenous energy production in developing countries which at present lack it.

(9) East-West economic relations should be compatible with our security interests. We take note with approval of the work of the multilateral organizations which have in recent months analyzed and drawn conclusions regarding the key aspects of East-West economic relations. We encourage continuing work by these organizations, as appropriate.

(10) We have agreed to strengthen cooperation in protection of the environment, in better use of natural resources, and in health research.

Our discussions here at Williamsburg give us new confidence in the prospects for a recovery. We have strengthened our resolve to deal cooperatively with continuing problems so as to promote a sound and sustainable recovery, bringing new jobs and a better life for the people of our own countries and of the world.

We have agreed to meet again next year, and have accepted the British Prime Minister's invitation to meet in the United Kingdom.



STRENGTHENING ECONOMIC COOPERATION FOR GROWTH AND STABILITY

I. We have examined in the light of our experience the procedures outlined in the undertakings agreed at Versailles last year which seek to ensure greater monetary stability in the interest of balanced growth and progress of the world economy.

II. We reaffirm the objectives of achieving non-inflationary growth of income and employment, and promoting exchange market stability through policies designed to bring about greater convergence of economic performance in this direction.

III. We are reinforcing our multilateral cooperation with the International Monetary Fund in its surveillance activities, according to the procedures agreed at Versailles, through the following approach:

A. We are focusing on near-term policy actions leading to convergence of economic conditions in the medium term. The overall medium-term perspective remains essential, both to ensure that short-term policy innovations do not lead to divergence and to reassure business and financial markets.

B. In accordance with the agreement reached at Versailles, we are focusing our attention on issues in the monetary and financial fields including interaction with policies in other areas. We shall take fully into account the international implications of our own policy decisions. Policies and objectives that will be kept under review include:

(1) Monetary Policy. Disciplined non-inflationary growth of monetary aggregates, and appropriate interest rates, to avoid subsequent resurgence of inflation and rebound in interest rates, thus allowing room for sustainable growth.

(2) Fiscal Policy. We will aim, preferably through discipline over government expenditures, to reduce structural budget deficits and bear in mind the consequences of fiscal policy for interest rates and growth.

(3) Exchange Rate Policy. We will improve consultations, policy convergence and international cooperation to help stabilize exchange markets, bearing in mind our conclusions on the Exchange Market Intervention Study.

(4) Policies Toward Productivity and Employment. While relying on market signals as a guide to efficient economic decisions, we will take measures to improve training and mobility of our labor forces, with particular concern for the problems of youth unemployment, and promote continued structural adjustment, especially by:

-- Enhancing flexibility and openness of economies and financial markets.

-- Encouraging research and development as well as profitability and productive investment.

-- Continued efforts in each country, and improved international cooperation, where appropriate, on structural adjustment measures (e.g., regional, sectoral, energy policies).

IV. We shall continue to assess together regularly in this framework the progress we are making, consider any corrective action which may be necessary from time-to-time, and react promptly to significant changes.

INTERNATIONAL DEBTIn Retrospect

1. The strategy already developed in the autumn of 1982 has been broadly maintained. It comprises five points:

- insistence on the need for satisfactory economic adjustment by debtors;
- central role for the IMF in agreement and monitoring of adjustment programmes;
- encouragement of commercial banks, within prudent limits, to maintain a flow of financing during the period of adjustment;
- agreement to mobilise official bridging finance where necessary;
- recognition that the strategy depended on achievement of a sustainable world economic recovery.

2. The growing world economic recovery since 1982 has indeed played a vital role. Partial reversal of the decline in commodity prices and a marginal growth in export opportunities for debtor countries have played an important part.

3. Management of a succession of individual problems has been extremely difficult, requiring intensive cooperation between leading creditor countries and international institutions. The record so far is on the whole successful, but:

- there remain acute problems with some countries, generally characterised by political inability/unwillingness to implement adjustment policies;
- although immediate country problems have been temporarily eased, they are still far from having been resolved;
- the position of the commercial banking system can be expected to remain under considerable strain.
- supervisory authorities are likely to be seeking to strengthen commercial banks' balance sheets in the period ahead; this may constrain banks' ability and willingness to lend.

Prospects1. Short-term:

- the threats of global disaster foreseen by some - to world economic activity and the international financial system - have receded;
- the prospects for continued world recovery for the next year or so, although still at a modest level, are reasonably good;
- the biggest worry is the ability or otherwise of a handful of countries to implement necessary adjustment policies (Argentina, Nigeria, Philippines, Brazil) given limited amounts of new money likely to be available;

- failure of debt service in Brazil, or a combination of other important countries, could still create widespread difficulties for commercial banks;
- the cost to debtors of present dollar interest rates remains troublesomely high in nominal and real terms.

## 2. Medium-term:

- refinancing and rescheduling has created a hump of debt falling due in a few years;
- if debtors are to earn their way out of trouble, they will need to expand both imports and exports and find markets for the latter;
- adjustment will need to continue for some years and means of securing this may be needed;
- funds available from existing sources may become more constrained;
- special remedial action may become necessary if downside risks materialise.

## 3. Longer-term:

- some hope of sustaining a more stable world economic environment;
- developing countries, even the more advanced among them, will continue to need net inflow of capital;
- commercial bank lending is unlikely to be resumed on the scale of the last decade; and it is undesirable that it should; more appropriate alternatives will be needed.

## Possible Action

1. Reaffirm existing strategy.
2. Reject global schemes to relieve debt, assist banks or increase world liquidity (at least as long as prospects for continuing world economic recovery are good).
3. Continue to work on prudential supervision of commercial banks, particularly the strengthening of capital ratios and adequate provisioning against country risk.
4. Need to complement existing strategy with some ideas for longer-term future development. Examples:
  - maintaining IMF authority and monitoring of adjustment when the IMF itself is no longer offering substantial finance;
  - encourage cases where debtors are willing and able to attract inward investment in existing assets, on an equity basis, and use the receipts to reduce foreign borrowing;

- where adjustment is being successfully undertaken, a case for debtor countries and their bankers seeking longer-term restructuring of debt;
- develop IBRD conditionality, to complement and extend IMF conditionality; in this context increased "structural adjustment lending" by the IBRD might be attractive in particular cases if satisfactory conditionality could be attached to it;
- possible scope for development of IBRD "co-financing", again particularly valuable if linked with adequate conditionality;
- general scale of prospective IBRD operations: prospective sharp decline in net lending points to the need for capital increase;
- private direct investment: obviously desirable, list possibly helpful measures by lending and borrowing countries, and by IMF and IBRD, and lines of argument to persuade borrowing countries.

#### Conclusion

4. The essential objective is to maintain and extend the present strategy, recognising that careful management will be needed for some years to come, both in order to resolve current problems and in order to avoid as far as possible re-emergence of the same, or worse, problems in future.