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Duty Clerk  
4/5

4 May 1984

Richard Hatfield Esq  
Private Secretary to  
Sir Robert Armstrong  
Cabinet Office

Dear Richard

**LONDON ECONOMIC SUMMIT: THEMATIC PAPER**

The Chancellor wanted to make further changes to the redraft of this paper attached to Sir Robert Armstrong's minute of 1 May.

The Chancellor asked me to send you the two attached alternative further versions. I am afraid that in the longer of the two there were more changes than could sensibly be marked in manuscript on the 1 May draft, and we have had it retyped. The second version, as you will see, is very much shorter.

I am also sending copies to Andrew Turnbull in No 10.

Yours ever,

David

D L C PERETZ  
Principal Private Secretary

Excellent - it flows  
beautifully - and can  
even be understood!  
not

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LONDON ECONOMIC SUMMIT  
7-9 JUNE 1984

THEMATIC PAPER

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Introduction and Background

1. Over the past two years, inflation has fallen and output has increased, particularly in the United States. The main concern is now to reinforce the basis for growth, without provoking a resurgence of inflation.
  
2. The main developments over the past year have been:-
  - 2.1 Economic growth<sup>-</sup> especially strong in North America and Japan, somewhat less so in certain European countries. This variation has helped to avoid some of the pressures seen in earlier, more rapid, recoveries;
  
  - 2.2 Improvements in productivity, meaning that recovery has so far had only a limited impact on employment. Experience has varied widely, with a particularly strong rise in employment in the United States;
  
  - 2.3 Significant reductions in inflation, although it remains high in some countries;
  
  - 2.4 Increases in budget deficits in North America but reductions elsewhere;
  
  - 2.5 A revival in world trade, helping to spread the benefits of the recovery;
  
  - 2.6 Continued strength in the dollar;
  
  - 2.7 Increases in nominal interest rates in the United States, with real rates remaining high in a number of countries;
  
  - 2.8 A reduction in the growth of the monetary aggregates, consistently with a prudent rise in nominal income;

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2.9 Significant payments imbalances between Summit countries. The Japanese surplus has been more than offset by the United States deficit so that the group as a whole has been in deficit - in contrast to its traditional surplus;

2.10 Reductions in current account deficits elsewhere, still leaving many debtor countries with substantial debt servicing costs and increased political and social strains.

3. The future facing the poorest countries remains daunting. Official aid is constrained by budgetary pressures in donor countries. The outcome of negotiations to replenish the International Development Association has so far disappointed many governments. The prospects for the poorest countries, especially in sub-Saharan Africa, remain bleak.

4. World economic recovery has helped the debtor countries. An increasing number have accepted the need to adjust their economic policies, and are seeing the benefits. A key role has been played by the IMF, whose resources have been strengthened. But there is still a long way to go.

5. [Some progress has been made in implementing the commitments to resist and reverse protectionism made last year at the OECD Ministerial meeting and at Williamsburg. All Summit governments have agreed to accelerate implementation of the Tokyo Round and to ease restrictions on imports from the poorest countries];\* nevertheless, there has been no easing of protectionist pressures, reflecting high unemployment and slow recovery in some cases, and a high exchange rate and growing trade deficit in the United States. The newly industrialised countries and others in the course of industrialisation have done little to dismantle their own trade barriers or to reduce internal constraints on competition.

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\*Note: depends on the outcome of the OECD Ministerial meeting on 18 May.

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6. Oil prices have remained relatively stable but the market balance is still fragile. Other commodity prices have risen modestly.

Prospects

7. Most forecasters expect that on present policies the recovery in the Summit countries should continue over the next year or so. Output in North America may rise more slowly after the rapid recent increases, but activity in Japan and the European economies should strengthen. Unemployment seems likely to fall further in the United States, but the recovery may not be rapid enough to bring more than a slight reduction elsewhere, particularly where market rigidities persist. So long as the recovery proceeds at a moderate pace, it should be possible to avoid an early resurgence of inflation. Recovery combined with present fiscal policies should help curb budget deficits in most Summit countries, but they may remain high in the United States.

8. Prospects for interest rates are uncertain. In the United States, a more moderate growth of output could help to hold the rise of interest rates in check; but an increase in the rate of inflation and concern about financing the budget deficit could work in the opposite direction. Elsewhere, further progress in curbing inflation and budget deficits may ease interest rate pressures.

9. Exchange rate prospects are also uncertain. The United States current deficit could tend to depress the dollar, but the high rate of return on assets in the United States could be an offsetting factor. Japan's growing surplus and strong macroeconomic performance could lead to upward pressure on the yen, but capital market rigidities could limit any appreciation.

10. Current account imbalances among Summit countries could increase. But rising exports and higher commodity prices will go some way to help many of the non-oil countries to service their debts and begin to reduce their current account deficits. The prospect of only a modest increase in energy demand should help towards

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achieving stable nominal oil prices.

Medium Term Objectives and Policies

11. We have the opportunity to move to a period of sustained growth. If this is to be achieved, Summit countries need to set themselves a common range of medium-term objectives, and to take account of the impact of their policies on each other and on the rest of the world. The objectives are:-

- 11.1 To continue with, and where necessary strengthen, prudent monetary policies, supported by strict control of public expenditure and budget deficits, aiming at still lower rates of inflation. Especially firm action will be needed in countries where inflation remains relatively high;
- 11.2 To create the conditions for lower nominal and real interest rates, by reducing inflationary expectations and putting structural budget deficits onto a sustainable basis;
- 11.3 To reduce obstacles to higher employment by encouraging labour mobility, discouraging measures to prop up declining industries, and reducing or phasing out export subsidies and other assistance which distorts trade. As demand expands, it will be important to ensure that wherever possible the unemployed are drawn into productive employment; this will also reduce the strains on public expenditure from social security provisions, which seem likely otherwise to rise to insupportable levels in many industrialised countries;
- 11.4 To promote the development of new technologies, in

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traditional as well as in new industries, and to encourage international co-operation and a more rapid and widespread acceptance of technological change;

- 11.5 To promote conditions which favour productive investment and private enterprise, especially among innovative small businesses;
- 11.6 To liberalise and expand trade, in services and high technology as well as in manufactures and commodities;
- 11.7 To complete current trade liberalisation programmes, in co-operation with other trading partners, and to consider with them a new negotiating round early in the second half of the decade;
- 11.8 To maintain adequate flows of resources (including official development assistance) to the non-industrialised countries, to encourage practical measures to conserve resources, enhance indigenous food and energy production, and create conditions where populations move towards stability;
- 11.9 To find ways of increasing the flow of private investment, through the removal by all countries of impediments to capital flows, and by encouraging a climate of confidence for investment;
- [11.10 To adapt and improve the operation of the international financial system. This entails creating a more stable medium term financial environment by prudent and convergent policies and performance among the major countries, particularly the reserve currency countries, providing a consistent flow of funding to the international financial institutions and improving international

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access to capital markets in industrialised countries];\*

- 11.11 To help debtor countries to make the necessary economic and financial changes, taking due account of political and social difficulties;
- 11.12 To pursue policies which will avoid, wherever possible, sudden and de-stabilising movements in either direction in international oil markets;
- 11.13 To pursue research into the causes, effects and means of limiting pollution; and in the light of such research, to make greater national and international efforts to reduce pollution of air, water and ground; and to adopt measures to minimise the effects of pollution.

Immediate Measures

12. In order to attain these objectives within a framework of sustained growth, Summit countries can agree on the following measures:

- 12.1 To carry forward and develop as appropriate the agreed procedures for multilateral monitoring and surveillance of national economic and financial policies, and to make further progress on prudent fiscal and monetary policies, to achieve lower inflation and interest rates and greater exchange rate stability;
- 12.2 To study with the appropriate international organisations, notably the OECD, policies to improve economic efficiency, incentives and flexibility; and to reduce obstacles to growth, in particular by harmonising international standards, encouraging innovation and adaptation, and facilitating the mobility of labour and capital;

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\*Note: depends on the outcome of the April IMF and May G10 meetings.

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- 12.3 To invite Finance Ministers to carry forward their consideration of the operations of the international monetary system, including exchange rates, surveillance, international liquidity and the role of the IMF;
- 12.4 To confirm the strategy on debt and to continue to implement it flexibly, welcoming the progress made by many debtor countries and the extensive international co-operation which has supported them, and recognising that continued recovery, lower interest rates and trade liberalisation will help further;
- 12.5 To develop arrangements which could foster renewed economic progress by debtor countries. These might include the encouragement of private direct investment; closer co-operation between the IMF and the IBRD; IBRD operations which can help to attract long-term capital investment; and improvements in the supervision of lending by commercial banks, notably in their overseas operations<sup>7</sup>;\*
- 12.6 To urge all trading countries to resist continuing protectionist pressures and to reduce barriers to trade; <sup>7</sup>following the decision taken at the meeting of OECD Ministers on 18 May<sup>7</sup>.
- 12.7 To promote at the GATT meeting in November 1984 a successful outcome to the agreed work programme; and to aim at a high level meeting of GATT before the end of 1985 to consider launching a new GATT round, with clearly defined objectives and guidelines.

East/West Economic Relations

13. Work continues on the economic and security implications of relations with Eastern countries.

Science and Technology

14. The Summit countries welcome the second report of the Working

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Note: depends on outcome of April IMF and May G10 meetings.

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Group on Technology, Growth and Employment created by the Versailles Summit, and the progress made in the 18 areas of co-operation: the Group will pursue further work on technology and the environment, adaptation to technological change, the relationship between technology and trade, and the sharing of major scientific facilities. It will report to the next Economic Summit.

15. The countries thank Prime Minister Nakasone for his report on the Conference on Life Sciences and Mankind, organised by the Japan Foundation in March 1984, and welcome the intention of the French Government to host a follow-up Conference in 1985.

16. They also welcome the invitation from the United States Administration to co-operate in the development of an international manned space station; and the intention of the United States to report progress on space station matters to the next Summit.

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**LONDON ECONOMIC SUMMIT****Background**

Inflation has fallen and output is growing, particularly in the US.

2. Over the last year, there has been a revival in world trade. So far improvements in productivity have meant there has been only a limited impact on employment. Monetary growth has slowed, but real interest rates remain high. Prospects have improved in a number of debtor countries, but there is still a long way to go.

3. Most forecasters expect the recovery to continue.

**Policies and Objectives**

4. Our main policies and objectives are:-

(i) to reduce inflation further, by pursuing sound monetary and financial policies, with strict control of public expenditure and budget deficits. Firm action will be needed where inflation remains high;

(ii) to create the conditions for lower interest rates, by reducing inflationary expectations and keeping budget deficits to manageable proportions;

(iii) to reduce obstacles to higher employment by encouraging labour mobility, discouraging measures to prop up declining industries, and reducing export subsidies;

(iv) to promote new technologies;

(v) to create an environment which favours investment and private enterprise; and to remove impediments to the free movement of capital;

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(vi) to promote free trade, exploring the possibility of a new round of tariff reductions;

(vii) to maintain adequate flows of resources to the non-industrialised countries, encouraging conservation, food and energy production, and stabilisation of population;

(viii) to develop the existing multilateral monitoring and surveillance of national economic policies;

(ix) to help debtor countries make the necessary changes, encouraging private investment and co-operation between the IMF and IBRD, and taking account of political and social constraints;

(x) to avoid so far as possible, shocks in oil markets;

(xi) to tackle pollution.

5. Work is continuing on:-

(a) the economic and security implications of relations with Eastern countries;

(b) technology, growth and employment;

(c) life sciences;

(d) the development of an international manned space station.

4 MAY 1964

