

Notes for Summit

Prime Minister

Alan Walters' notes
for the summit

JWS
30/4.

(a) A New Bretton Woods?

We need a reform of fiscal and monetary policies (and particularly the United States) so that they are more responsible and conducive to a stable world economy. We do not need a new international monetary system.

The appreciation of the dollar 1980-5 was largely a response to the need for the US to run a large current account deficit and import capital to finance the budget deficit at the same time that monetary policy was tightened in order to wring inflation out of the economy.

To blame floating exchange rates for these problems of a soaring dollar and high interest rates is like blaming the messenger for bringing bad news. The dollar did not appreciate because of perverse international monetary arrangements. It rose because of the budget deficits and tightened money.

Any system, be it Bretton Woods or target zones, would have broken down under the pressures created by the deficits. But the attempt to hold down the dollar, under a Bretton Woods system, would have required a large increase in the US money supply (and/or corresponding reductions in the monetary growth of Japan and Europe) - hardly the sort of policy that would promote a stable world economy.

(b) Agricultural Trade

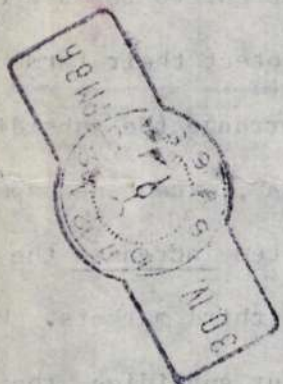
The United States and Europe appear to be on a collision course. Both subsidise and protect their farmers. The United States, however, does mostly arrange the subsidies so that they decrease the surpluses. The CAP, except perhaps in lactates, ensures that their subsidy system increases the surpluses, and so exacerbates the tensions in third markets. While no-one will believe any promises to cut subsidies, the commitment by the EEC to change their subsidy system so that it penalizes rather than promotes surpluses would go some way towards both mollifying the Americans and a solution to the underlying problem.

It would be a good idea to start easing agriculture under the GATT umbrella (I fancy the United States now regards it as a mistake to have insisted that, on the founding of GATT, agriculture be excluded). But progress is bound to be painfully slow.

(c) Trade in Services

The United States is keen to make progress in freeing trade in services. Since Britain has a relative advantage in services, we should strongly support these efforts. Whether it should be centred in GATT, which unfortunately has no experience in the area of services, or some other institution, such as the World Bank, is one of the issues - but if Barber Conable develops the Bank's impetus along the Baker initiative lines, then I submit that the issue is resolved.

Ala Walker



(2) Trade in services

The United States is a free trade country. It has a long history of trade with other nations. It is a member of the World Trade Organization and has signed many trade agreements. It exports a wide variety of goods and services to other countries. It also imports goods and services from other countries. The United States is a major trading partner for many other nations. It is a leader in the world economy. It has a strong and stable economy. It has a high standard of living. It is a country that is open to trade and international cooperation.