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MEMORANDUM

NATIONAL SECURITY COUNCIL

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INFORMATION

June 10, 1981

FG006-12

FG038

MEMORANDUM FOR RICHARD V. ALLEN

THROUGH: NORMAN BAILEY NB

FROM: HENRY NAU HN

SUBJECT: Meeting with Meese, Baker, Deaver, and White House Staff on Ottawa Summit, 10:00 a.m., June 11

The Vice President's staff will brief key White House officials on preparations for the Ottawa Summit. I have attached a tentative agenda for the meeting (Tab I) and a full schedule of the preparatory work for the Summit and outlines of the briefing books (Tab II). You may want to look over the latter. It tentatively calls for an NSC meeting on June 25 to review the political issues and preparations for the Summit. I suggest that you make this meeting firm and indicate that it will review the overall strategy for the Summit, including the interrelationship of political and economic objectives.

There are many detailed issues that remained to be worked out within the U.S. Government (e.g., whether we push an agreement on export credits or support additional World Bank lending for energy) and with the preparatory delegations of the other countries. But the big issues that need the attention of White House principals are threefold:

1. Is there agreement on how we will handle the political discussions at the Summit?

a. Do we agree that the President's statement the first night sets the tone for the entire meeting and should elevate the Summit discussions, portraying the true significance of economic issues, which must be viewed not as technical issues over how we split the economic pie but core issues affecting the capacity of the Summit democracies to provide for their national and collective security. (I have attached at Tab III the outline of the President's statement I did for you earlier.)

NSC#8103393

b. Where do we stand in preparing the President's statement and are we exploiting this opportunity to strike the basic themes of U.S. foreign policy, which the President will articulate subsequently in major speeches? (The Canadians at the Vancouver meeting were pleading for a new buzzword to capture the current post-detente situaton.)

c. As a specific consequence of the political discussions, should we seek an opening paragraph in the communique which emphasizes the critical role of economic growth and prosperity for Western security? (We broached this idea tenatively at Vancouver and the Japanese were a bit skittish. Nevertheless, I think it can be done.)

2. How do we deal with the contentious economic issues on the Summit agenda?

a. The most contentious issue will be macroeconomic and trade policies -- Europe and Japan lined up against the US on high interest rates, and Europe lined up against Japan and to a lesser extent US on trade.

(1) Given that the U.S. will not change its policies, are there other types of gestures or concessions we could make to the allies, Germany and Japan particularly, which would give their leaders something to take back home with them to show that the U.S. is a good partner?

b. Trudeau, the host, seeks a visible outcome on North-South issues, either a common commitment to global negotiations or to increased World Bank lending for energy development.

(1) What can we offer to the Canadian host to ensure a successful conference from his point of view without compromising our basic policy positions? (Our current position on global negotiations is to postpone any decision until after Cancun and on energy lending is to study further the requirement for additional lending since we are concerned that World Bank money is simply displacing private money in certain sectors like oil and gas development.)

c. The East-West trade issue is perhaps most important to us, yet if pushed without careful thought could also be quite contentious.

(1) Have we considered what we want specifically in this area from the allies?

3. How do we ensure the type of Summit we seek involving generalized exchanges, short communiques, and no further bureaucratization?

a. Flexible, broad exchanges of view -- As time for the Summit approaches, pressures will increase to take up specific and detailed issues.

(1) How do we preserve flexibility leading up to the Summit?

(2) How do we convey the view that our approach deals with fundamentals, even if we have a crisis on our hands at the time?

b. Short, general communiques -- past Summits have created the expectation of lengthy communiques reflecting specific decision.

(1) How are we preparing the communique?

(2) Do we need to lobby other countries to keep it short? (Britain is only other country that insists on a short communique.)

(3) Can we reserve enough flexibility to allow the leaders to give the communique a certain theme and structure without having to spend a great deal of time on it at the Summit?

c. Follow-up -- Past summits tended to become more and more bureaucraticized.

(1) Have we thought through how we would like to see each issue followed up by other organizations, avoiding the creation of new Summit-related groups?

Agenda

Modalities (Summit schedule, locations, arrangements)

General U.S. approach

U.S. Objectives

Economic agenda

- Macroeconomics (including monetary issues)
- East-West economic relations
- North-South relations
- Energy
- Trade

Political track

Summary of the President's role (including bilaterals)

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June 8, 1981

SCHEDULE OF SUMMIT PREPARATORY WORK
(including related meetings)

GENERAL

May 19-22	Review of several topic papers (see individual schedules)
May 22	State prepares list of specific initiatives and forwards to Vice President's Office (suggested initiatives in the political area, if any, will be submitted following the May 26 meeting of the Stoessel Working Group. See political schedule).
May 28	IG on the Ottawa Economic Summit to (1) review status of agenda paper preparations, (2) assign responsibilities for talking points for the Vancouver Sherpa meeting, (3) address specific initiatives list, and (4) assign issue papers on "other issues" for briefing book.
June 8	Memo on recommended specific initiatives to Vice President's Task Force, then to White House Staff.
June 4-6	Economic and political Sherpas meet in Vancouver.
June 10 or 11	White House meeting (including State and Treasury).
June 11	IG on the Ottawa Economic Summit. Meeting to (1) debrief agencies on the Sherpa meeting, (2) review papers on "other issues", and (3) assign future work, including:

- overall scope paper and economic scope paper,
- briefing papers and suggested talking points for the President on each agenda item,
- briefing papers and suggested talking points for Secretaries Haig and Regan,
- draft communique language on all topics.

	If necessary, in light of the Vancouver PRG meeting, the IG may also ask agencies to do further work on the topic papers.
June 19	Circulate interagency through IG system the cleared agency drafts of Summit briefing papers.
June 22	Comments on briefing papers due to State for Summit IG.
June 23	IG on the Ottawa Economic Summit Meeting to review Summit briefing papers. Assign talking points for Ottawa Sherpa meeting.
June 25	State provides IG-prepared briefing materials, including overall draft communique, tc Vice President for distribution and review by Cabinet and White House Staff.
June 25(?)	NSC to review political briefing materials.
July 1	Cabinet and White House comments.
July 1	White House plus Sherpa meeting on comments, revisions to briefing materials as necessary.
July 1	Cabinet/White House comments relevant to preparation for Ottawa Sherpa meeting to State.
July 1-2 (tentative)	Political Sherpas meet in Ottawa.
July 6-8	Sherpa meeting in Ottawa.
July 10	Submit briefing book to the President.
July 10	IG on Ottawa Economic Summit meeting to debrief agencies on Ottawa Sherpa meeting.
July 15	Briefing of President with Secretaries Haig and Regan.
July 16	Revise briefing book as necessary and prepare final talking points.
July 19-21	Summit.

May 26, 1981

WORK PROGRAM ON SPECIFIC ISSUES

I. Macroeconomics (including monetary issues) - U.S. Paper

May 22	Circulate paper to Cabinet and White House.
May 26	CCEA meeting to review.
May 26	Cabinet/White House comments due.
May 27	Revisions made as necessary and reviewed by White House.
May 29	Distribute U.S. macroeconomics paper to Sherpas,
Jun 1-2	Economic Policy Committee of the OECD reviews U.S. macroeconomics paper.
Jun 4-6	Sherpa meeting in Vancouver reviews paper.
Jun 11	Summit IG assigns briefing materials. (See general schedule.)

If necessary

Jun 11	Summit IG assigns revision of U.S. macroeconomic paper.
Jun 16	Summit IG reviews revised U.S. macroeconomic paper.
Jun 17	Circulate paper to Cabinet and White House.
Jun 19	CCEA review of revised macroeconomics paper, if necessary.
Jun 19-26	Revisions prepared then reviewed by White House.
Jun 26	Distribute revised paper to Sherpas, Cabinet, and White House.

II. East/West - U.S. paper

May 18 Circulate to Cabinet and White House.

May 20 CCCT Meeting (trade, East/West export controls).

May 22 Distribute U.S. paper East/West Economic Relations: A Prudent Approach to Sherpas.

May 28 Summit IG assigns talking points for the Vancouver Sherpa meeting.

Jun 4-6 Sherpa meeting in Vancouver.

Jun 11 Summit IG assigns briefing materials. See general schedule.

If Necessary

Jun 11 Summit IG assigns revision of East/West paper.

Jun 16 IG review of revised East/West paper.

Jun 17 Circulate paper to Cabinet and White House.

Jun 19 Cabinet review of revised East/West paper, if necessary.

Jun 26 Distribute revised East/West paper to Sherpas, Cabinet, and White House.

III. North/South - Canadian paper

May 29	Receive revised paper from Canada. IG on LDCs will review and prepare talking points for the Vancouver Sherpa meeting.
June 5	Distribute Canadian paper to Cabinet and White House. Comments welcome.
Jun 4-6	Sherpa meeting in Vancouver.
Jun 11	Summit IG assigns briefing materials. See general schedule.

IV. Trade - Japanese paper/U.S. comments paper

June 8 Receive revised Japanese trade paper. Circulate to Cabinet and White House. Comments welcome.

Jun 4-6 Sherpa meeting in Vancouver.

Jun 11 Summit IG assigns briefing materials. See general schedule.

V. <u>Energy</u> - no U.S. paper to be distributed internationally

May 25-26	HLMG meeting in Alberta to review energy developments since Venice, IEA contingency planning, coal and nuclear policy and LDC energy development.
May 28	Summit IG assigns talking points for the Vancouver Sherpa meeting.
May 29	Receive report of the HLMG.
May 29	IG on International Energy Policy to discuss U.S. positions for June 3 IEA Governing Board meeting and HLMG report.
Jun 3	SIG on Non-Proliferation and Nuclear Cooperation to discuss nuclear policy issues for Summit.
Jun 4-6	Sherpa meeting in Vancouver.
Jun 8	CCNRE reviews nuclear policy statement.
Jun 12	IG on LDCs to discuss LDC energy development options paper.
Jun 18	Papers distributed to Cabinet and White House staff.
Jun 22	Cabinet Council to discuss IEA emergency sharing obligations and LDC energy development options.
Jun 11	Summit IG assigns briefing materials. See page 2 of general schedule.

June 8, 1981

SCHEDULE OF SUMMIT PREPARATORY WORK - POLITICAL

May 26	Stoessel Working Group meets.
June 10 or 11	White House meeting (with State and Treasury) on initiatives, schedule, and procedures.
June 11	Stoessel Working Group debriefs on Sherpas meeting, tasks (1) briefing papers on individual topics, (2) bilateral, briefing and background papers for President and Secretary Haig, (3) first draft of political communique language, (4) strategy paper for July Sherpas meeting, (5) general talking points for President, (6) background papers on political questions, if any, (7) political scope paper.
June 19	Draft political talker for President's use on first evening due from State to Office of the Vice President. Circulated to White House for comment.
June 19	Draft Political briefing and background papers due to the Office of the Vice President. Circulated to White House for comment.
June 23	Stoessel Working Group meets, if necessary, to review approach to next Sherpa meeting and General Talking Points for President.
June 25	Sherpa strategy paper and general talking points for President are submitted to the NSC for review.
June 29	Core of political book is assembled for review by State Department principals (final, to the maximum extent practicable), of (a) topical briefing memoranda, (b) bilateral briefing papers, (c) suggested communique language, (d) background papers.
July 1-2	Political Sherpas meeting.

July 3	Stoessel Group meets, if necessary, to review and revise core political book;
July 6	Submit book to Vice President's Office; submitted to White House staff.
July 10	Submit briefing book to President.
July 15	Briefing of President with Secretaries Haig and Regan on political and economic matters at Summit.
July 16	Revise briefing book as necessary and prepare final talking points.
July 19-21	Summit.

DEPARTMENT OF STATE

Washington, D.C. 20520

June 2, 1981

Ms. Nancy Bearg Dyke
The Vice President's Office

SUBJECT: Ottawa Summit: Proposed Outline of Briefing Books and Briefing Papers

Attached for your consideration is a proposed index of briefing books for the Ottawa Summit, and a set of outlines for the various types of briefing materials which will likely be needed to prepare the President. Both are revisions of papers I sent you May 13. Their intent is to give you a clearer idea of what the Summit briefing package might look like before the bulk of the papers are tasked, tentatively on June 11.

I would greatly appreciate your input and reactions to the attached.

Many thanks,

Al Adams

Alvin P. Adams
Director
Secretariat Staff

Attachments:
As stated.

Ottawa Summit

Proposed Index of Briefing Books

I. OVERVIEW BOOK

1. Overall Scope Paper
2. Communique
3. Schedule (Outline of meetings by President, Secretaries Haig and Regan, and issues to be raised at each.)

II. ECONOMIC BOOK

-- Scope Paper

-- Briefing Memos

(1) Macroeconomics
  a. Briefer
  b. Topic Paper
  c. Talking Points
  d. Background Papers, if necessary

(2) East-West
  a. Briefer
  b. Topic Paper
  c. Talking Points
  d. Background Papers, if necessary

(3) North-South
  a. Briefer
  b. Topic Paper
  c. Talking Points
  d. Background Papers, if necessary

(4) Energy
  a. Briefer
  b. Topic Paper
  c. Talking Points
  d. Background Papers, if necessary

(5) Trade
  a. Briefer
  b. Topic Paper
  c. Talking Points
  d. Background Papers, if necessary

III. POLITICAL BOOK

-- Scope Paper

-- General Talking Points

-- Individual Topics
  1. Topic I
    -- Briefing Paper
    -- Talking Points
    -- Background Papers, if necessary

2. Topic 2
    -- Briefing Paper
    -- Talking Points
    -- Background Papers, if necessary

IV. OTHER ISSUES BOOK

(1) Terrorism
    a. Briefing Memos
    b. Talking Points
(2) Refugees
    a. Briefing Memos
    b. Talking Points
(3) Export Credits
    a. Briefing Memos
    b. Talking Points
(4) Future Summit
    a. Briefing Memos
    b. Talking Points

V. BILATERAL BOOK

-- Canada

a. Briefer for Bilateral
b. Background Papers on Major Issues
c. Bios
d. Country Profile

-- UK

a. Briefer for Bilateral
b. Background Papers on Major Issues
c. Bios
d. Country Profile

-- France

a. Briefer for Bilateral
b. Background Papers on Major Issues
c. Bios
d. Country Profile

-- Italy

a. Briefer for Bilateral
b. Background Papers on Major Issues
c. Bios
d. Country Profile

-- Japan

a. Briefer for Bilateral
b. Background Papers on Major Issues
c. Bios
d. Country Profile

-- FRG

a. Briefer for Bilateral
b. Background Papers on Major Issues
c. Bios
d. Country Profile

-- EC

a. Briefer for Bilateral
b. Background Papers on Major Issues
c. Bios
d. Country Profile

Ottawa Summit

SUGGESTED SPECIFICATIONS FOR SUMMIT PAPERS

A. Overall Scope Paper

1. Format: Department of State briefing paper (no addressor /addressee)

2. Length: 3 pages maximum

3. ~~Finals~~ Due: Vice President's Office on ~~July 13~~ June 25
   Executive Secretariat on ~~July 11~~

4. Outline:

   I. The Setting: Summit Background

   II. Overview:

      A. Principal themes which tie key issues together (Political and Economic)
      B. President's Principal Objectives in priority order

   III. Other Leader's Views/Objectives

   IV. Conduct of Summit: Suggestions on Sequence of discussion at Summit to achieve objectives

5. Drafting and Clearing: State to draft (EB with EUR and EA); clearances by Summit IG and Stoessel Group, also P, E, S/P and S.

B. Economic and Political Scope Papers (two separate papers)

1. Format: Department of State briefing paper (no addressor/addressee)

2. Length: Three pages maximum

3. ~~Final~~ Papers Due: Vice President's Office on ~~July 13~~ June 25
Executive Secretariat ~~July 11~~

4. Outline:

I. The Setting

II. Objectives, in priority order

III. Views and Objectives of Other Leaders

IV. Discussion of US Objectives

V. Talking Points, as appropriate

5. Drafting and Clearances:

a. Economic - EB to draft; clear with Summit IG, P, E, S/P and S.

b. Political - EUR with EA to draft; clear with Stoessel Group, E, S/P, P and S.

C. Briefing Paper on Economic Topics (separate papers on the 5 economic topics)

1. Format: Department of State briefing memo; no addressor/addressee

2. Length: 3 pages maximum

3. ~~Final~~ Papers Due: Vice President's Office on ~~July 6~~ June 25
Executive Secretariat on ~~July 3~~

4. Outline:

I. Background

II. US Objectives

III. Discussion of Issues

IV. Other Leader's Objectives/Views

V. Talking Points

5. Drafting and Clearances:

a. Macroeconomic: CEA to draft, Summit IG to clear

b. Trade: STR to draft, Summit IG to clear

c. North-South: State to draft, Summit IG to clear

d. East-West Economics: State to draft, Summit IG to clear

e. Energy: State/Energy to draft, Summit IG to clear

D. Background Papers on Economic Topics (as necessary to supplement information in briefers on economic topics; principally intended for the Secretary)

1. Format: Department of State briefing paper (no addressor/addressee)

2. Length: 1 page (each of the five main topics could yield several sub-issues dealt with, as needed, in separate background papers)

3. ~~Final~~ Papers Due:

   a. To Vice President's Office on ~~July 6~~ June 25
   b. To Executive Secretariat on ~~July 3~~

4. Format (no format specified)

5. Drafting and Clearing: The lead agency for the particular topic will be responsible for background papers, an addition to the basic briefing paper.

E. Briefing Papers on Political Subjects (number not yet determined but 5 or 6 likely; these papers address subjects which we expect to come up in Summit sessions among the seven countries.)

1. Format: "blind" briefing memo; no addressor/addressee; State Deartment will draft.

2. Length: 2 pages maximum, plus brief Talking Points

Vice President June 25

3. ~~Final~~ Papers Due: ~~NSC on July 10~~
Executive Secretariat on ~~July 7~~

4. Outline:

   I. Background

   II. US Objectives

   III. Discussion of Issues

   IV. Other Leaders Objectives/Views

   V. Talking Points

5. Drafting and Clearing: Drafters to be determined on issues. Clearances: P, E, S/P, EUR, EA and others as appropriate.

F. <u>Bilateral Briefing Papers</u> (separate contingency papers for each Summit leader)

1. <u>Format</u>: Memorandum to the President from Secretary Haig.

2. <u>Length</u>: 3 pages maximum

3. <u>Finals Due</u>: VP Office June 25
   ~~NSC~~ on ~~July 10~~
   Executive Secretariat ~~July 7~~

4. <u>Outline</u>:

   I. Setting

   II. Objectives

   III. Issues

   IV. Talking Points

5. <u>Drafting and Clearing</u>: EUR and EA (for Japan) will draft; clearances as appropriate with other bureaus and agencies; also with P, C, S/P, E.

G. Bilateral Background Papers

1. Format: Department of State briefing paper (no addressor/addressee)

2. Length: 1 page, background papers will be expected for each issue raised in the briefing papers for the President.

3. Finals Due: To ~~NSC~~ VP OJ on ~~July 10~~ June 25
   To Executive Secretariat July 7

4. Outline: (no outline specified)

5. Drafting and Clearing: Generally the same as on bilateral briefing papers.

MEMORANDUM ~~CONFIDENTIAL~~ 3127

NATIONAL SECURITY COUNCIL

~~CONFIDENTIAL~~

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BY dw NARA DATE 1/14/2019

INFORMATION June 3, 1981

MEMORANDUM FOR RICHARD V. ALLEN

THROUGH: NORMAN BAILEY

FROM: HENRY NAU HN

SUBJECT: President's Summit Statement of Political Issues at Ottawa (U)

The President should present a carefully structured, comprehensive statement of US foreign policy at the opening dinner of the Ottawa Summit. This statement should be forceful, deal with fundamentals not the crisis of the moment (which will be even more impressive if Poland is once again in turmoil with the Party Congress in Warsaw on July 18-20), and reflect sensitivity to the views and enhanced power of the allies. If done properly, it will set the tone of the entire meeting, help to contain divisive economic issues on the agenda the following day and elevate the Summit to a new place of importance in managing relations among the industrial democracies. (~~C~~)

The tone and construction of the statement are critical. Tone should reflect the new style of American leadership -- by steady example rather than by erratic rhetoric. Construction should be strategic -- elevating Summit discussions and portraying the true significance of economic issues. (~~C~~)

The building blocks and sequence of the President's statement might be as follows:

-- I have been looking forward to this opportunity to present to you my views and policies for dealing with the challenges we face as leaders of the free world. (U)

-- The threat I see us facing is two-fold:

1) coping with Soviet power and aggressive behavior in Europe and elsewhere in the world;

2) overcoming economic stagflation and hopelessness both at home and abroad, including the plight of poverty and oppression in so much of the developing world. (U)

~~CONFIDENTIAL~~
Review on June 3, 1987

~~CONFIDENTIAL~~

-- My government has set its course to deal with these threats, and the American people have accepted the sacrifice that this course requires. (U)

-- This course entails three phases:

1) laying the foundation of domestic instruments and consensus to support a strong and reliable American foreign policy. (U)

a) restoring a bipartisan consensus on American foreign policy centered in the confidence and strength of U.S. economic and defense vitality;

b) undertaking unprecedented budget steps to revive the American economy and to refurbish the American military establishment, especially the human, manpower aspects;

2) grounding American foreign policy in the real security and economic problems of bilateral and regional relations, rather than the grand designs of world order. (U)

a) overriding importance of relations among the industrial democracies;

b) respect for principles of non-intervention in the affairs of sovereign states -- Poland, Afghanistan, and El Salvador;

c) systematic approaches to regional security in Central America/Caribbean and Middle East/SW Asia;

d) growth and cooperation in the world economy for the benefit of all but particularly developing countries -- drawing in this effort on the enormous strength and success of free and pluralistic economic institutions. (U)

3) constructing the guiding, overarching global principles that define U.S. objectives and policies toward the Soviet Union. (U)

-- While all of these phases are proceeding simultaneously, there is a logic to their sequence:

a. domestic strength is the prerequisite of effective foreign policy -- hence my preoccupation in the early months of my Administration with domestic issues;

b. bilateral and regional relations keep foreign policy focussed on real and specific problems -- hence our desire to proceed carefully and pragmatically in Central America and the Middle East;

c. global relations between the superpowers is the superstructure of foreign policy. These relations should not dominate; they affect specific bilateral and regional problems we face but should not define these problems, and they depend on the foundations we lay in our own domestic societies but should not drive our societies' either toward an uncompromising hard line or toward passiveness. Hence our desire to formulate carefully and in consultation with our allies the global superstructure of US policy. (U)

-- These are my views. I believe strongly in what we are doing. But I know that in the 1980s America cannot do it alone. You, our closest friends, have great power and responsibility today. You also have ideas. I want to hear them. We will succeed only as we share common perceptions of the threats we face and the responses we must make. (U)

-- I have not made a major foreign policy address as yet. First, because I see us building American policy and capabilities, as I have just outlined, from the bottom up. And second, because I value the consultative process with you. I want to know what views we share and what views we need to work on in order to share more. (U)

cc: Tyson

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TO ALLEN FROM NAU DOCDATE 10 JUN 81

BAILEY 10 JUN 81

KEYWORDS: SUMMIT ECONOMICS MEESE, E

NSC EXPORT CREDITS BAKER, J

DEAVER, M

SUBJECT: AGENDA & BACKGROUND PAPERS FOR WH STAFF MTG W/ VP STAFF 11 JUN 1981 & TENTATIVE NSC MTG FOR 25 JUN 1981

ACTION: FOR INFORMATION DUE: STATUS IX FILES

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1	Open	2019-07-19	dbarrie	F16-011	17 p. Transferred to FO006-01

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25 JUN 1981

EXECUTIVE OFFICE OF THE PRESIDENT
COUNCIL OF ECONOMIC ADVISERS

Date: 6/25/81

To: RICHARD ALLEN

From: MURRAY L. WEIDENBAUM

As you know, I was asked to prepare the macroeconomic assessment paper for the Ottawa Summit. I am pleased to share the final product with you in the hope that you will find it informative, as well as a useful presentation of the Reagan Administration's policy in an international setting.

3890

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JANET COLSON			
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WS

OTTAWA 1981: A MACROECONOMIC ASSESSMENT

Prepared for the Ottawa Economic Summit

By

Murray L. Weidenbaum
Chairman, Council of Economic Advisers
Executive Office of the President
Washington, D.C.

June 1981

NSC#8103890

OTTAWA 1981: A MACROECONOMIC ASSESSMENT

Summary and Introduction

The economic setting for the Ottawa Summit is at once more encouraging and more dangerous than was the case for Tokyo and Venice. The short-term outlook contains a number of encouraging features. There is general agreement that the Summit countries as a group are on the verge of reestablishing positive growth. The real income loss associated with 1978-1980 oil price increases have almost worked their way through our economies. Firmer monetary policy and better understanding of the economic forces at work have contributed to a more realistic approach by the private sector and by government policymakers. Inflation has decelerated and is forecast to continue to do so, although in some countries inflationary pressures are strengthening.

Nevertheless, there are serious economic difficulties to be faced. Inflation in many countries is unacceptably high, and inflationary expectations are virulent and pervasive. Interest rates more fully reflect these expectations than has been the case in the past. Unemployment is high, and likely to rise further, especially in Europe. In most countries, the growth trend of productivity continues to be disappointing by historical standards.

Recent major relative price adjustments and shifts in competitive positions have demonstrated that many of our economies are highly inflexible, requiring extensive dislocation to achieve adjustment of real output. Differential willingness and ability to adjust have complicated international economic relations. In short, the fundamental causes of poor performance in the seventies have not been overcome and some have been aggravated. Progress has been made, but the danger remains of succumbing to the temptation to "help the recovery along" by boosting government spending and relaxing monetary policy. The risk of rekindling rapid inflation, even without another external shock, is alive and well.

By the end of the 1970s public confidence in economic policy was seriously damaged in most of our countries. Nothing we tried seemed to provide a durable solution to the simultaneous high inflation and high unemployment we experienced. Even with ideal policies, the magnitude of the adjustment would have required an extended period to work itself out. Nevertheless, three major factors seem to have contributed sigificantly to the shocks and the difficulties in adjusting to them:

-- excessive growth of domestic and international liquidity,

-- economic and social rigidity associated in large part with the expanded role of government in our economies and the private sector's sometimes perverse reaction to it, and

-- obsession with the short-term outlook while ignoring the longer-term effect of policy on the functioning of the economic system.

A common approach to these problems can be envisioned. But it would not be a lock-step coordination of specific actions nor agreement on quantitative targets, since we each have our own idiosyncracies, unique institutions and traditions, and differing socio-political systems. The common approach encompasses three elements: a long-term policy horizon; a commitment to fight inflation as the primary enemy of growth and productive employment; and a presumption that less government rather than more is the better means of stimulating the private sector to create jobs. Indeed, in several countries, policy has moved strongly in this direction over the most recent past.

In today's interdependent world, we clearly cannot make economic policy in isolation -- even if we agree on a common approach to our problems. Communication and consultation are essential to informed policymaking leading to compatible policies. Policy conflicts, especially in the short-run, may arise, perhaps requiring a difficult choice between pursuing longer-run objectives and dampening short-run difficulties.

On a more positive note, the longer horizon permits greater emphasis on the inherent benefits of the open international trading system and the effectiveness of competition. We must maintain a constant vigil against the forces of protectionism, whether in the form of trade restrictions or domestic subsidies.

We all recognize that strong performance in our individual economies, not government-to-government agreements, is the best insurance against serious international economic problems. Equally, neglect of international repercussions can provoke actions which may rebound on domestic performance. The need for frank interchange, and an effort to achieve a coherent set of policies internationally, is apparent. This meeting of heads of state and government, along with the more institutional forums (OECD, IMF, GATT), are important vehicles for this purpose.

The Short-Term Outlook

Slow but positive economic growth in the Summit countries is virtually a consensus forecast for the second half of 1981, accelerating into 1982. This follows a period of approximately a year from mid-1980, during which the effects of oil-price induced real income losses and non-accommodating policies resulted in several quarters of declining output in most Summit countries. In Japan, higher net exports in 1980 (due in part to a fall in imports) offset a substantial fall in the growth of real domestic demand, while 1981 should show renewed strength in domestic demand. For the United States, fiscal and monetary stimulus in the second half of 1980 produced a temporary surge in activity in early 1981. A sustainable recovery may be postponed to late 1981 or early 1982, following one or two quarters of weakness. In Europe, persistent inflationary pressures and tight monetary conditions, linked in part to problems with the current account and exchange rates, will probably slow the pace and timing of recovery. The outlook for Europe in 1982 is reasonably promising.

The domestic composition of the real income change in 1979-80 is encouraging for future growth possibilities. In contrast to the 1972-75 period when real wages rose substantially faster than terms-of-trade adjusted productivity (except in the United States), the period 1979-80 saw real wage movements largely consistent with adjusted productivity in most Summit countries. The labor share of value added in manufacturing fell in 1980, returning to approximately the 1973 levels (63 percent) for the Summit countries taken together, after rising to 70 percent in 1975. In several countries, better understanding of the economic forces at work led to lower nominal wage settlements than in 1974-76 contributing to better inflation performance and and improved outlook for investment.

The aggregate demand effect of the income transfer to OPEC was delayed, this time around, by the household sector's saving behavior, resulting in a smoother adjustment of world demand to the large terms-of-trade realignment. Following the first oil-price shock, household saving rates in OECD countries rose, offsetting the real earnings gains in some countries and compounding losses in others. For the private sector as a whole, net positive financial balances soared in 1975 and 1976. By contrast, they fell in 1979-80. Both private consumption and productive investment declined only modestly in volume terms over the past year. A sharp secondary investment decline appears unlikely, as profit shares did not seriously deteriorate and investment requirements arising from the new energy price relationship are substantial.

The policy reaction to the second oil price surge was significantly different from policy actions from 1974 to 1976. From early 1979, monetary policy was generally intended to be nonaccommodating. Emphasis remained on suppression of the inflationary pressures from relative price changes. Nevertheless, ex post monetary policy appears to have been more accommodating in some key countries than was intended. Fiscal policy, as measured by government sector deficit financing, added to total demand, but to a considerably smaller degree than in 1975-76.

On a more somber note, in the near-term the anticipated rise in economic activity will not be sufficent to stop -- much less to reverse -- the rise in unemployment. Demographic factors, especially in Europe, will cause an unusually large increase in the labor force. Even without these effects, the approximately 2 percent growth of output expected area-wide to mid-1982 would only just be sufficient to maintain existing employment, given expected productivity trends. In terms of inflation, the Summit countries as a group had a better record after the second oil price increase than after the first -- but with considerable variations among countries. It is somewhat disappointing, however, that domestic costs and prices are inching up throughout the area following more than a year of professed "non-accommodating" monetary and tight fiscal policy. Exchange rate behavior has produced a quite different pattern of inflationary pressures as well.

Current account imbalances as between OPEC and the rest of the world while large, have thus far been manageable. Both industrial and developing countries have been more responsive to the requirement for long-term adjustment to higher relative energy prices (and to a possible upward trend for real oil prices). Greater reliance on the price mechanism and higher price elasticities than anticipated suggest that the imminent period of modest, then stronger growth can be accomplished without another severe disruption in the global oil market.

In addition, OPEC's preferred pricing policy suggests that current account imbalances may persist while the slow adjustment of total energy demand and fuel switching occurs. The international financial system -- principally the private capital markets -- has handled admirably the necessary intermediation and should continue to do so. Persistent imbalances will translate into increasing debt levels and a higher premium on credit-worthiness. The risk of financial difficulty for individual countries (particularly LDCs) is higher. But greater use of the IMF's conditional financing facilities should reassure the financial community that individual difficulties can be handled with acceptable levels of risk. That reassurance should be enhanced by the IMF's increased emphasis on supply-side adjustment, the market mechanism, and allocative efficiency. Lowest-income countries will be particularly dependent on such official financing.

In sum, the outlook is for a moderate, sustained upswing in economic activity in the Summit countries, beginning in the second half of 1981. Inflation should continue to slow. Unemployment may continue to rise for some time, perhaps through 1982, partially due to strong labor force growth. External imbalances among the Summit countries should shrink, as will the imbalances between oil exporters and importers. But the latter imbalances will remain substantial, requiring efficient intermediation by international capital markets.

Risks and Uncertainties

A serious risk in the current situation is the temptation to welcome declining inflation rates with a macroeconomic policy response designed to stimulate demand. Set against this risk are two positive contrasts between today and 1975: first, a broad consensus that inflation is the enemy of growth, and second, recognition that government action in many countries has contributed to embedded inflation and inflationary expectations. The modestly promising outlook for 1981/82 would be compromised if, once again, inflationary expectations were rekindled by relaxing monetary restraint and reviving indiscriminate government efforts to stimulate demand. The nascent recovery can be expected to be self generating. It should be encouraged by maintaining anti-inflationary policies while freeing the private economy to respond to emerging demand with adequate supply.

But what about departures from this scenario? Inflation could reaccelerate, collide with restrictive monetary policy, provoke efforts to further tighten fiscal policy, yielding a deep and perhaps simultaneous downswing in activity. Alternatively, activity could remain sluggish or continue to decline, generating even greater unemployment than now foreseen. In either case, efforts to focus economic policy on the medium-term may be compromised if governments succumb to demands for protection, for more government spending programs, and for a more accommodating monetary policy. The short-run inflation and unemployment risks present the same policy dilemma, and require the same response. Both will be addressed more effectively by long-term policies designed to counter inflationary pressures and to reinvigorate the underlying strength of the productive sector in our economies.

Strong counter-inflationary monetary policy may have unpleasant interest and exchange rate consequences in the short run. In the pursuit of long-term objectives these must be tolerated. Restrained growth of monetary aggregates in the U.S. and more sustainable external positions in other countries should moderate the risk of lasting instability in financial and foreign exchange markets over the outlook period as a whole.

On strictly economic consideration, a new energy price/supply shock does not appear likely in the short-term. Higher energy prices should reduce the energy requirement to support economic growth and induce development of alternative (non-oil) energy sources. Similarly, there are minimal risks of commodity/food price shocks in the short-term outlook which could have macro-economic consequences.

On the other side, the current oil market situation may lead to a reduction in the "real" price of oil during this year. If this occurs, we should use the respite to reinforce efforts to reduce our vulnerability to oil supply disruptions.

This theme is further developed in the report of the High-Level Monitoring Group.

Prolonged weak economic activity in Summit countries would damage the real and financial outlook for oil importing LDCs and place greater strain on the private capital market and official institutions. However, an evaluation of the more likely outcomes suggests neither financial disruption (e.g., major or simultaneous default by East European and/or LDC borrowers) nor a sharp retrenchment of private lenders.

The Longer-Term Setting

Recent economic trends in the U.S., or the promise of renewed growth in Europe, or the modest recovery in domestic demand in Japan can be considered encouraging. But only if we ignore the deep-seated behavioral and structural problems in our economies which led the OECD in its July, 1979, Outlook to say: "An ambitious growth path would probably entail risks of inflation that were unacceptable (while) a continuation of unsatisfactory growth...would carry a number of other unfavorable features and risks (social unrest, low or negative productivity growth, higher budget deficits, protectionism, etc.)" The OECD continues: "The basic message...is not that achievement of more satisfactory growth rates has to be regarded as impractical and that countries have to resign themselves to persistent slow growth. It is, rather, that many countries need to induce important changes in behavior patterns and relieve structural constraints before they can move back onto better growth paths and regain high employment." (emphasis added)

The OECD ends on a positive note in an effort to dispell the strong currents of "growth pessimism," "selective growth," "zero-sum society," and "low-growth trap" which were prevalent in Europe and were creeping into U.S. economic thinking. It has been common in recent years to cite the need for lower standards-of-living, to accept low productivity, to acquiesce to OPEC's commanding position on energy supplies, and to presume that government programs are the only way to create additional employment.

In the longer-term setting, the OECD area survived the immediate effects of the second oil shock in better shape than the first, but it was not without severe, and in some cases, persisting macroeconomic dislocation. The area has not yet restored investment shares to pre-OPEC levels, much less provided the increased investment called for by the new energy price reality. Governments are servicing historically high and growing levels of debt and are rapidly becoming a permanent stimulus to nominal demand, with side effects on financial markets and inflationary expectations.

Policies pursued over the past two years in several countries have substantially enhanced the basis on which a return to acceptable performance can be built. The bright points in the short-term outlook, however, must be tempered by the realization that it will not lead to acceptable performance in our economies. The economic problems of the 1980's had a long gestation period, a turbulent birth, and will require time and patience to overcome.

Basically, three sets of factors built up over an extended period combined to create the economic miasma of the 1970's:

-- First, the money supply, the proximate source of inflation, was permitted to grow too fast throughout the decade.

-- Second, modern industrial economies showed themselves to be inflexible and, therefore, unable to adjust readily to major structural changes.

-- Third, economic policy in many countries has been directed to the short-term situation, while largely ignoring the long-term systemic implications of policy actions.

For each of these factors the role of government is important. We know that Government policies may be required to assure efficient functioning of markets, especially to promote competition and overcome monopoly practices. Resource immobility is, however, also closely associated with the rising non-market share of total output in Summit countries.

Non-market activities affect the allocation of resources in two ways: (1) directly, through public control of economic activity (ranging from traditional areas such as education to more recent ventures into steel, autos, and shipbuilding) and (2) indirectly, by reallocating resources from those who are entitled to them from economic activity to those who receive them by political decision. The seventies have indeed demonstrated that market signals are powerful and effective agents in the allocation of resources. When government, for political reasons, alters market signals, for example by subsidizing a declining firm or industry -- that industry may continue to attract resources. The resources for the subsidy meanwhile are derived from more properous sectors -- reducing their ability to attract new capital. Adjustment is impaired.

Society, through the political process, had mandated an expanded role for government in the economy. The magnitude of that role differs from nation to nation and may change with changing conditions. It is legitimate to ask, however, whether the size of government throughout the Summit area has not outstripped the ability of the economy to maintain it. A growing "underground" economy, tax evasion, tax-push inflation, "taxpayer revolts," and the secular growth in government deficits can all be taken to suggest that financing government activities has become more burdensome than the public is willing to accept.

By fundamentally altering the attitude of the public toward the role of the government and the market, policies can also encourage inflationary cost and pricing behavior in the private sector. Business and labor are rational -- they react rationally if they expect the government to validate wage settlements by accommodating the subsequent price rise with protectionist measures, higher nominal demand, or subsidies.

When governments are also able to influence expansion of the money supply, and are willing to sacrifice price stability for other economic or political objectives, political decisions on economic matters are likely to have a strong inflationary bias. That bias has been reinforced by private economic agents who have sought and obtained distributional, equity, and special-interest objectives during periods of rapid growth, only to see them become fetters to resource mobility when growth slowed.

Admittedly, even with ideal policy, economic performance in the 1970s probably would not have equalled the 1960s -- due to the number, scope, and magnitude of the external disturbances. In part, our societies have consciously chosen lower efficiency to achieve equity objectives; in part, we discovered tradeoffs between equity and efficiency which many did not anticipate. We are now faced with the challenge of restoring the level of efficiency necessary for our economies to meet the legitimate aspirations of the individuals who make up the economy, as well as the majority that wields the political power.

A Common Approach for the Medium-Term

The Summit countries are by no means homogenous; thus identical policy prescriptions would not be appropriate. We do, however, adhere to a sufficiently similar economic philosophy to envisage a common approach to longer-term problems. Each of us can implement it according to our individual traditions, institutions, and socio-political system.

Given the severity of current problems, we can agree that policy must be framed in a long-term context. Much of today's difficulty is traceable to past policy of short-term expediency which paid little or no attention to the necessary incentives in a market-based mixed economy. As noted earlier, behavior patterns, often developed in response to policy-distorted market signals, will have to adjust. Good policy can speed this adjustment but adjustment will not be instantaneous. We must educate the public that a "quick fix" is not a solution. Indeed, the repeated attempts to find a quick fix are themselves major contributors to the problems.

Moreover, we can agree that persistent high inflation is incompatible with economic strength. If the primary role of government is to provide an environment within which the dynamism of the private economy creates growth and employment, then mastery of inflation must top the list of policy objectives. The short-run concept of inflation-unemployment tradeoffs becomes illusory when attention is directed to the long-run relationship in which the locus of equilibria would show a positive correlation between inflation and unemployment.

Mastering inflation requires multiple policy actions:

1. Control the source of excessive growth of nominal demand -- the money supply. Moderate and non-accommodating growth of monetary aggregates becomes a form of self-discipline on fiscal policy and on the private sector. Monetary restraint is a necessary, but not sufficient, condition for inflation control.

2. Design fiscal policy consistent with and supportive of restrained growth of the money supply. Monetary policy alone cannot insure that the price/volume mix of nominal output is skewed toward real growth. Budget policy must help by exercising firm control over government expenditures. In many countries, the structure of taxes needs to be reformed to restore private sector incentives to save, work, and invest.

3. Subject non-market activities to the discipline of the market, at least to the extent of identifying the economic cost of non-market or regulatory activities. The power of special-interest groups to impose economic costs through the political process, and the potential for these costs to influence the decisions of millions of participants in the market can lead to serious misallocation of resources and inflationary pressures. The latter develop as the market participants rebel against the political decision by exercising their economic power. The less disciplined the non-market activities the greater these two dangers.

4. Foster competitive discipline in the market place, both in domestic and international commerce. The growing involvement of public authorities in the production and trade of goods and services is detrimental to this objective, as the pressure for a political override is stronger when public monies are involved. Where public ownership is deemed desirable, market forces should apply to the extent possible as if the enterprise were private.

5. Encourage mobility of labor and capital. Here the challenge is to evaluate existing policies and programs to determine whether they discourage mobility. If so, to judge whether the social gain of the program is

worth the economic cost. During two decades of rapid growth, we felt we could indulge in social programs almost as if scarcity no longer existed -- and economics was obsolete. A reevaluation is needed in light of the harsh message of the seventies.

Mastering inflation also requires, in the long-run and in the sense of political realism, a vigorous growing economy which creates jobs and raises general living standards. Job creation and the growth of output go hand-in-hand. Thus, the supply-side must be an essential focus of policy. In our fundamentally market-oriented economies, this means policy actions which assure that government is not unwittingly or unnecessarily interfering with the functioning of the market. While markets are clearly not perfect, there is no evidence that governments consistently have better answers. Efforts to correct "market failure" may in fact lead to "government failure." The U.S. experience with crude oil price controls was a valuable lesson in this regard.

Aspects of International Concern

All countries are mutually dependent as a result of the spectacular growth of trade and investment in the post-World War II period, and the shrinking of the globe by rapid technological advances, especially in transportation and communications. The predominance of the United States has diminished as Europe, Japan, and the newly industrializing countries, including the oil exporters, have enjoyed relatively faster growth. Interdependence and a more even distribution of economic power do not permit economic policymakers to ignore the international implications of domestic policy, since undesired and unexpected consequences are bound to follow.

We must recognize, however, that economic policy is the result of the political process in our individual countries, and is therefore dependent on the approbation of the domestic public. Attempts to coordinate policy actions which are not clearly in the national interest of each country lead nowhere and may be largely exercises in wishful thinking.

A middle ground is clearly necessary in which interdependence and national interests both receive their due attention. National policies which are compatible in the long-run will help prevent atomizing the hard-won integrated global trading system which contributes much to our current standard-of-living. In this regard, close, candid, and constant communication among policymakers is vital to informed policy A common approach to economic policy as outlined above helps the formulation of compatible policies over the longer run. This is not to say there will be no conflicts -- especially short-run, transitory failure to mesh -- but in those cases a choice must be made between the expedient and the essential. The international organizations such as the IMF, GATT, and OECD provide a forum for consultations and, as appropriate, for more formal and concrete commitments on selected aspects of economic policy.

In this framework, several issues of international concern can be identified in today's setting:

1) Monetary Policy, Exchange Rates, and the International Financial System: The dollar, is de facto the key world currency; confidence in the dollar is, therefore, an important international issue. Inflation has sapped the strength of the U.S. economy and eroded confidence in the dollar. The United States has undertaken to cure both of these ills by embarking on a determined, persistent fight against inflation.

Each of the elements required to master inflation discussed earlier can be found in the U.S. program. The credibility of the commitment to control the money supply must be established. The burden of government is being reduced. Disincentives in the tax structure are being moderated. To the extent that government borrowing "crowds-out" or puts upward pressure on interest rates -- the current fiscal stance still does so. On the other hand, the downward pressure coming from a credible counter-inflation policy, from a shrinking deficit, and from incentives to save will more than offset the upward pressure.

There are important international consequences of this policy -- especially since monetary institutions, monetary policy objectives, and exchange rate policies differ among major countries. However, success in reducing inflation in the United States and abroad is the only hope for permanently lowering interest rates, which will coincidently bring greater stability to markets.

In the meanwhile, a period of painfully high interest rates in the U.S. and corresponding strength of the U.S. dollar is creating strong economic and political pressures in Europe and Japan. Better understanding of these pressures, while holding fast to long-run anti-inflation goals, can aid in the formulation of policies more conducive to stable international monetary arrangements.

2) Free Trade vs. Protectionism: High unemployment and rapid change create strong, often irresistible, political pressure for protection of existing jobs. Willingness of governments to protect existing industries, firms, and jobs when they fall victim to competitive forces is the source of considerable resource immobility. Protection in one country inevitably leads to pressure for protection in trading partners, becoming an international problem. Many traditional forms of protection are now discouraged by international agreements, but new forms, mainly domestic measures, have grown up. We must recognize protection as an enemy in the battle against inflation. Domestic

and international protection not only damages the counter-inflation effort, but also seriously affects the outlook for developing countries that depend on Summit country markets for export earnings. As a matter of macroeconomic policy, we must work to maintain, indeed reinforce, the momentum toward free trade internationally and more competitive markets domestically.

3) The Positive Side of Trade Promotion: "Supply-side" economics deserves international attention. Trade and investment can be promoted, and global welfare raised, by policies designed to raise productivity and encourage competitiveness. This is the flip side of the protectionist coin. As the developed countries move to even higher levels of productivity, to new products and services, the trading system will more easily accommodate the newly industrializing countries and their exports. In parallel fashion, the new exporters must accept the responsibilities of a free trading system and open their markets to trade and investment. Freeing agriculture from trade and production constraints in Summit countries and in the rest of the world would contribute significantly to the stability and growth of world commodity markets. Enhanced productivity and productive capacity are excellent protection against commodity and food price shocks which can create severe macroeconomic problems.

4) Vulnerability: Monumental shocks to the global economy are not effortlessly absorbed: they are best avoided, but certainly not suppressed. Policy should be designed to reduce vulnerability to shocks -- and to enhance flexibility in responding should they occur. Quantum differences in the ability to adjust to economic shocks can create severe international disruption -- and lead to efforts to penalize those who adjust most rapidly. As with the discussion of inflation, the longer perspective leads to the certain conclusion that greater flexibility is an essential attribute of an efficient and equitable economy.

Postlog

The "macroeconomic assessment" in this paper is my personal contribution to the preparations for the Ottawa Summit, and I accept responsibility for it. I would be derelict, however, not to acknowledge with sincere thanks the advice, counsel and contributions I have received from my colleagues in the other Summit countries, and indeed in my own government. The paper faithfully reflects, in my opinion, a wide consensus among my numerous collaborators.

I should like, however, to mention two points which have been suggested and which I have not fully incorporated in the paper:

First, my colleague at the Commission of the European Communities suggests that current U.S. monetary policy is leading to a "risk of overkill in the sense of over-hard monetary policies in countries with already respectable inflation performances." This is a theme which the OECD Secretariat has largely accepted in its documentation for the Economic Policy Committee and the Ministerial meeting. Briefly, I would suggest that there are many factors at work which should reduce the risk of monetary over-kill in Europe in the near future. In any event, the adjustments to such policies are likely to be more moderate as financial market participants come to realize the determination of monetary authorities to avoid the stop-and-go policies of the past.

Second, I would like to note the comment most recently received from my French colleague: "We would not imagine at all that a new line of economic policy removes by itself the many constraints under which our economy operates today, but that, taking a fresh look on some of the issues you raise in your draft paper, we could tend to think that a clear departure, albeit limited in its extent, from some of the lines you advocate, can actually improve the performance of the French economy in its specific context. Although some significant measures will be taken in the next few days along these new lines, a fully comprehensive program can only be put together and announced after the results of the coming general elections."

Quite clearly, this paper attempts to present in an international context the ideas on economic policy that the Reagan administration has developed to meet the problems we face at home. I would not expect these views to be readily or fully adopted in all of the Summit countries, but hopefully, some helpful or at least stimulating ideas will be found in the paper.

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TO ALLEN   FROM WEIDENBAUM, M   DOCDATE 25 JUN 81

KEYWORDS: OTTAWA SUMMIT   ECONOMICS

OIL

SUBJECT: MACROECONOMIC ASSESSMENT FOR THE OTTAWA SUMMIT

ACTION: FOR RECORD PURPOSES   DUE: STATUS C   FILES WH

FOR ACTION	FOR COMMENT	FOR INFO
[redacted]		TYSON
		NAU
		BAILEY
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COMMENTS

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THE WHITE HOUSE

WASHINGTON

June 16, 1981

MEMORANDUM FOR EDWIN MEESE III
JAMES BAKER III
MICHAEL DEAVER
RICHARD DARMAN
CRAIG FULLER
HENRY NAU

FROM: RICHARD V. ALLEN

SUBJECT: Ottawa Summit

You will note from the enclosed article, Saturday, June 13th edition of the New York Times, that Trudeau apparently is thinking along lines similar to our own.

The issue is the overall theme of the Ottawa Summit, and it is clear that Trudeau wants to think about "the big questions."

This is not at all inconsistent with our own objectives, and I believe we should seek to engage him and the other leaders in examination of the most basic issues. Seen in this light, all the preparatory work, draft papers and the like will be of diminished importance, although they will certainly not be insignificant.

Once again, our focus on the President's initial statement will yield maximum dividends if that statement is well developed and skillfully delivered. About the latter part there need be no concern; the former is our main challenge.

Attachment

Tab A - NYT article

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Trudeau Says He Will Steer Summit Meeting in July to Basic Issues

By HENRY GINIGER
Special to The New York Times

OTTAWA, June 12 — Prime Minister Pierre Elliott Trudeau, who will preside over the summit meeting here next month of seven leading industrial nations, said today that he would seek to force a choice between "papering over differences" or seeking basic agreements that would allow the West to "manage" political and economic crises in the world.

"I think it will be a difficult summit without assurance of success," Mr. Trudeau said at a news conference. He added that it would be "the first real summit" because it would deal with basic subjects.

The leaders of the United States, Britain, France, West Germany, Italy, Japan and Canada, as well as the President of the European Economic Community's Commission, Gaston Thorn of Luxembourg, will meet here July 20 and 21. The annual session, held in Venice last year, has generally been called an economic summit meeting, but Mr. Trudeau made it clear that he would use his position as host to transform the meeting into an overall strategy session covering political as well as economic problems. This would be one way for Canada, with the smallest in population of the seven nations, to gain a bigger voice on the world stage.

"If I have any influence as chairman," Mr. Trudeau said, "we won't be merely getting together to write a text on the need of conserving energy or increasing consumption of coal while respecting the environment, the kind of thing we did in Venice."

Will Isolate Themselves

The eight leaders will isolate themselves on the first day at a rustic resort lodge in Montebello, Quebec, about 41 miles from Ottawa, and Mr. Trudeau virtually described what the scene around the table would be like as he sought to raise basic issues.

"How do you, Mr. President or Madam Prime Minister, see the evolution of East-West relations?" he asked. "What are your unstated major premises when we're dealing with the South? Is it charity, is it self-help, is it inevitable?"

Having stated some of the questions he would ask, Mr. Trudeau said the leaders would have to choose.

"Either we paper over our differences," he said, "or we get down to some fundamentals and ask ourselves, regardless of our own economic policies, is there a common thread that holds us together? If so, how can we use that in consultation and in managing various crises?"

He indicated that the most basic question of all was, "Do we want our ideologies to survive, meaning by that democracies based on market societies?"

One of the major difficulties of the meeting, one that made it "interesting and unpredictable," according to Mr. Trudeau, was the fact that so many of the leaders will be taking part for the first time. They include President Reagan, President François Mitterrand of France, Prime Minister Zenko Suzuki of Japan and Mr. Thorn. Italy is undergoing another cabinet crisis, and who the Italian Prime Minister will be is not yet known.

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TO WH STAFF MEMBERS FROM ALLEN DOCDATE 16 JUN 81

KEYWORDS: OTTAWA SUMMIT CANADA TRUDEAU, PIERRE

MEDIA

SUBJECT: NY TIMES ARTICLE RE OTTAWA SUMMIT

ACTION: ALLEN SGD MEMO DUE: STATUS C FILES WH

FOR ACTION	FOR COMMENT	FOR INFO
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		BAILEY
		TYSON
		RENTSCHLER
		KAMINSKY

COMMENTS

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