WHORM Subject File Code: FO006-01
(Foreign Affairs: Economic Summit, Ottawa, Canada, 07/19/1981-07/20/1981)
Case file Number(s): 018700-018749
Box: 13

C.F. 8121564
018710CA

DEPARTMENT OF STATE

Washington, D.C. 20520

FO006-01 ~~CONFIDENTIAL~~

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17 JUL 1981

MEMORANDUM FOR MR. CRAIG L. FULLER
THE WHITE HOUSE

Subject: Treasury Economic Briefing Paper for the Ottawa Summit

The Department strongly recommends the following changes in the sanitized version of Secretary Regan's secret "Economic Briefing Papers for the President" that is intended for release to the public shortly.

1. On page 6 headed "Exchange Rate Policy," delete the reference to France and Italy in the tic on "Political uncertainty in Europe." It is sufficient to cite Poland by way of illustration of political uncertainty in Europe as one of the factors accounting for the strength of the dollar. The inclusion of France and Italy is not necessary to make the exchange rate point and would be deeply resented by these governments.

2. In the pages summarizing in bullet form "The Current Economic Situation and Outlook," of each of the six Summit countries (pages 15, 17, 19, 21, 23 and 25), omit the "Outlook." Give only the currently known situation on growth, inflation, etc. of their economies. U.S. expectations about the likely future behavior of these economies are not only unnecessary but, from the perspective of their governments, quite inappropriate if they do not jibe with the expectations of the governments concerned. We in the U.S. would resent the public release by any of the six nations, in the context of the Summit meeting, of their expectations about the future performance of this economy that was not consistent with our official outlook.

3. Delete, or at a minimum substantially modify, the papers on Trade (page 11), North/South (page 13), and Energy Policy (page 15). These papers are sharply stated points in bullet style to economize in briefing the President. They are, in effect, reminders to him of the points he will want to elaborate with some sophistication and sensitivity to the concerns of his partners. If these bullet papers are published as is, the result would be to give a picture of U.S. policy that is too stark and lacking in balance. The Administration

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BY dn NARA DATE 11/1/2017

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GDS 7/17/87

position on these issues is more nuanced.

The Department believes it important that at this point we not issue inadequate summaries of these important areas in our foreign relations. We note that many pages are included in the book to explain the President's domestic economic recovery program, his position on high interest rates, inflation, exchange rate policy, etc. The inclusion of those papers in the book is preferable to overly terse summary presentation on trade, North/South, and energy.

4. In the Trade paper there is an error of fact in the fourth point. Completion of unfinished MTN business is recommended and the two examples of unfinished MTN busines are the GATT safeguards code (this is an unfinished item we would like to see concluded) and a GATT countervailing code. We have a GATT subsidies code which covers countervailing duties. We do not know what Treasury intends when it calls for yet another GATT countervailing code.

L. Paul Bremer, III
Executive Secretary

DEPARTMENT OF STATE

1981 JUL 17 PM 6 14

WASHFAX RECEIPT
DEPARTMENT OF STATE

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JL 17 P6: 51

WHITE HOUSE
SITUATION ROOM

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MESSAGE NO. 000303 CLASSIFICATION ~~CONFIDENTIAL~~ No. Pages 2

FROM:	Al Adams	S/S	23126	7224
	(Officer name)	*(Office symbol)*	*(Extension)*	*(Room number)*

MESSAGE DESCRIPTION Bremer-Allen re Treasury Economic Briefing Paper for the Ottawa Summit

TO: *(Agency)*	DELIVER TO:	Extension	Room No.
NSC	Craig Fuller	456-2823	
	JP		
	COL		
	NAN		
	NSC		

FOR: CLEARANCE ☐ INFORMATION ☐ PER REQUEST ☑ COMMENT ☐

REMARKS: ADVANCE COPY

S/S Officer: Al Adams by [illegible]

81 JUL 17 P9:38

FORM DS-1760
7-77

UNITED STATES DEPARTMENT OF COMMERCE
The Under Secretary for International Trade
Washington, D.C. 20230

JUL 17 1981

MEMORANDUM FOR CRAIG L. FULLER

FROM: Lionel H. Olmer LHO

SUBJECT: Treasury Economic Briefing Paper for Ottawa Summit

I appreciate the opportunity to review this paper.

We offer the following comments and suggestions:

-- Include the following language as an additional paragraph, possibly under "Domestic Outlook" at the bottom of p. 2: "The U.S. merchandise trade deficit is expected to worsen slightly in 1981 compared to last year's $24 billion deficit. The deficit in 1982 will likely be substantially greater."

-- In the section titled "Canada: Current Economic Situation and Outlook," change the growth figure to read 1 percent instead of 2 percent; and substitute "may" for "will" in the next to last sentence, making it read: "Federal budget deficit may be reduced by new energy taxes this year."

-- In the section titled "Trade: Major Points" (fourth item), "countervailing code" should be changed to "code on commercial counterfeiting."

-- In the section titled "High Interest Rates" (next to last item), change the first sentence to read: "There is no evidence of a direct link between deficits per se and inflation, particularly if the deficits are not financed by expanding money supply."

-- We have also penned some additional suggested changes on the following pages: 2, 4, 5 and 6.

DOMESTIC OUTLOOK

Largely in response to the highly inflationary policies of the last 3 quarters of 1980, the domestic economy experienced unsustainably rapid growth in total spending during the early part of 1981. However, in recent months numerous signs have appeared to suggest that the effects of last year's excessive [monetary] stimulus are wearing off. Consistent with Administration policy, the growth of national income for the balance of the year is expected to slow to a much less inflationary path. In all likelihood, this transition from a period of high inflation will be accompanied by a temporary reduction in real output growth as economic forces gradually shift from disequilibrium to proper balance.

The most recent data suggest a marked slowing in the growth of personal income and final demand, while the rate of increase of industrial production continues to weaken from the rapid pace registered last fall. The growth of nonfarm payroll employment has shown a declining trend since January. The most recent annual rate of housing starts has fallen to 1.0 million units, ~~20%~~ 33% below the peak reached last November. Little or no real output growth is expected during the remainder of the year.

On a more positive note, after more than 2 years of modest deceleration in the growth of the money stock, albeit with occasional large fluctuations around this trend, the inflation outlook appears to be improving. Persistent declines in prices of food and non-food commodities, including the price of oil, are contributing to the more hopeful outlook for inflation. In May, the increase in the Consumer Price Index from 12 months earlier had fallen slightly below 10%, a considerable reduction from the 14-1/4% increase in this measure during the 12 months ending June 1980.

Treasury bill rates at mid-year stand well below the peak levels reached during 1980, but current levels nonetheless remain higher than projections made last winter. In view of the recent progress in reducing inflation, and the expectations of additional progress against inflation as a result of the Administration's strong fiscal control plan, [and the Federal Reserves lower money growth path,] further declines in interest rates are anticipated during the second half of the year. Indeed, it is possible that inflation and interest rates will abate more quickly during the months ahead than the current forecast suggests.

In comparison to the economic assumptions underlying the March budget revisions, the main budgetary implications of the current outlook are: lower automatic cost-of-living adjustments for indexed Federal programs, particularly in 1983 and subsequent years, but somewhat higher outlays for interest on the public debt and other interest-rate-sensitive programs in 1981, 1982, and 1983.

[illegible] 4 – The U.S. merchandise trade deficit is expected to worsen slightly in 1981 compared to last year's $24 billion deficit. The deficit in 1982 will likely be substantially greater.

HIGH INTEREST RATES

- High interest rates are not the result of our economic policy. They are the result of previous economic policy excesses which promoted inflation and discouraged real savings.

- We cannot effectively lower interest rates in isolation. We have a coordinated economic policy designed to promote growth, lower inflation, and lower interest rates.

- Reducing the budget deficit would have a negligible effect on interest rates. Almost all of the high level of interest rates reflects expectations of inflation and, therefore, expectations of money growth. The only solution is to break those expectations, and that means a credible long-term policy of permanently reducing money growth. We will not finance our modest deficits with additional money, but from an increased pool of savings.

- Interest rates rise very quickly when large increases in money are reported, indicating that market expectations are very sensitive to any sign that the Fed might not stick to the long-term money targets.

- Reducing money growth is necessary for reducing inflation and interest rates.

- There is no evidence of a direct link between deficits and inflation. Therefore, deferring the tax cut to balance the budget would sacrifice incentives to work, save, and invest while contributing little to the inflation fight.

- In 1968 and 1969, President Johnson attacked inflation and high interest rates by raising taxes. This resulted in the only budget surplus to be realized in the past twenty years. However, over the 1968-69 period, interest rates rose by over 50% (4.3% to 6.7%) and the inflation rate doubled (3% to 6.1%) because money growth was not controlled in fiscal 1968, and continued to grow at 7%.

DEFENSE SPENDING, INTEREST RATES, AND INFLATION

- Higher defense spending is necessary.
- Including increased defense outlays, U.S. Government spending will rise only 7% per year on average in next four years versus 11.4% each year in the past four.
- Spending control, plus our tax cuts will bring a balanced budget in 1984.
- Government spending as percent of GNP will decline from 23% to 19% from 1981 to 1984.
- Our fiscal program is restrained relative to most other countries:
  - -- Our budget deficit is a much smaller proportion of Gross National Product
  - -- The growth of government spending is slower
  - -- Total government spending is a smaller proportion of national product than other Summit participants.
- Our budget reflects cuts in spending and taxes that allow private citizens to spend or invest more at their own discretion, while the government spends less.
- There is no evidence that defense spending has any more direct effect on inflation than any other form of government spending.
- Real defense spending declined from 1970 to 1980, yet this was the decade of our greatest inflation.
- By contrast, 1950s had a much higher proportion of defense spending and no impact on inflation.
- Inflation is a problem of excessive money growth, which can be eliminated only by restricting growth of money. The Federal Reserve has pledged to reduce monetary growth.
- Less money will result in less inflation and lower interest rates.

EXCHANGE RATE POLICY

- o Our exchange rate policy is one of non-intervention except during periods of "disorderly conditions."

- o We will intervene when disorderly or crisis conditions affect the dollar excnange markets.

- o The dollar exchange market is massive and highly efficient. We believe in free markets. Intervention by governments cannot be in sufficient size to affect equilibrium levels.

- o Risking taxpayer money in an abortive attempt to affect exchange rates would be counter-productive.

- o Our duty as the major reserve and trading currency nation is to achieve growth and price stability at home. Thus the dollar will be firm and respected and will insure the health of the international monetary system. Our trading partners will gain.

- o Unanticipated intervention destabilizes exchange markets whereas policy of minimal intervention provides certainty, thereby stabilizing the market.

? unanticipated intervention can lead to less speculation and greater stability

- o The recent strength in dollar is due to:

  -- Growing confidence in our dedication to price stability and growth.

  -- Increasing inflationary pressures in many European countries.

  -- Political uncertainty in Europe - (France, Italy and Poland).

- o Higher interest rates in the U.S. than abroad had a minor and temporary effect on dollar strength. Low inflation countries typically have low interest rates and strong currencies -- Switzerland, Germany, and Japan.

- o Years of high interest rates and massive intervention in international markets did not prevent the dollar from falling snarply from 1976 to 1980. Similarly, heavy intervention from July 1980 to early this year did not prevent the dollar from rising strongly.

- o With instant communication and integrated international markets, the Government is unable to hold the international value of its currency at an artificial level. If it tries, it will first waste its international reserves, then its international credit lines. Who pays for this? The taxpayer.

- o We believe exchange rate stability will emerge in a developed

Bpm

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THE WHIT[redacted]SE
WASHINGTON

CABINET ADMINISTRATION STAFFING MEMORANDUM

DATE: July 17, 1981 NUMBER: 018710CA DUE BY: Today, 5 pm

SUBJECT: Treasury Economic Briefing Paper for Ottawa Summit

	ACTION	FYI
ALL CABINET MEMBERS	☐	☐
Vice President	☐	☐
State	☑	☐
Treasury	☐	☐
Defense	☐	☐
Attorney General	☐	☐
Interior	☐	☐
Agriculture	☐	☐
Commerce	☑	☐
Labor	☐	☐
HHS	☐	☐
HUD	☐	☐
Transportation	☐	☐
Energy	☐	☐
Education	☐	☐
Counsellor	☐	☐
OMB	☐	☐
CIA	☐	☐
UN	☐	☐
USTR	☑	☐
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	ACTION	FYI
Baker	☐	☐
Deaver	☐	☐
Allen	☐	☐
Anderson	☐	☐
Garrick	☐	☐
Darman *(For WH Staffing)*	☐	☐
Gray	☐	☐
Beal	☐	☐
Weidenbaum	☑	☐
______	☐	☐
______	☐	☐

Remarks: The attached material was developed by Treasury for the President's use at the Ottawa Summit. Would you please review the material and notify me of any necessary changes as soon as possible.

RETURN TO: Craig L. Fuller
Deputy Assistant to the President
Director,
Office of Cabinet Administration
456-2823

THE SECRETARY OF THE TREASURY

WASHINGTON

OTTAWA SUMMIT

ECONOMIC BRIEFING PAPERS

July 1981

THE SECRETARY OF THE TREASURY

WASHINGTON

OTTAWA SUMMIT

ECONOMIC BRIEFING PAPERS

INTERNATIONAL OUTLOOK

In the year since the Venice Summit, the adjustment to the energy price rise of 1979 has in important respects been better managed than was the case in the middle 70s. The fight against inflation has been pursued with determination and the average rate of inflation has fallen. Energy use and oil dependence have been reduced. Growth in the two years 1980 and 1981 will be higher on an average than in 1974 and 1975 in the industrial countries, while inflation is likely to be lower. Growth has been better maintained in the developing countries than in the industrial countries. The large balance of payments deficits which the energy price increase produced have so far been financed at substantial cost in both developed and developing countries but without imposing intolerable adjustment burdens.

On the other hand, the experience of individual countries has differed within this broad picture. In four of the seven summit countries, inflation remains in double figures. In six of our countries, unemployment has risen and in some cases sharply. There is a prospect for moderate growth in the coming year but at present it promises little early relief from unemployment. Balance of payments surpluses and deficits originating in the oil price increase are likely to persist for some time. Interest rates have reached record levels in many countries. If long sustained at these levels, they would threaten productive investment and impose heavy burdens particularly on deficit countries, developed and developing.

DOMESTIC OUTLOOK

Largely in response to the highly inflationary policies of the last 3 quarters of 1980, the domestic economy experienced unsustainably rapid growth in total spending during the early part of 1981. However, in recent months numerous signs have appeared to suggest that the effects of last year's excessive [monetary] stimulus are wearing off. Consistent with Administration policy, the growth of national income for the balance of the year is expected to slow to a much less inflationary path. In all likelihood, this transition from a period of high inflation will be accompanied by a temporary reduction in real output growth as economic forces gradually shift from disequilibrium to proper balance.

The most recent data suggest a marked slowing in the growth of personal income and final demand, while the rate of increase of industrial production continues to weaken from the rapid pace registered last fall. The growth of nonfarm payroll employment has shown a declining trend since January. The most recent annual rate of housing starts has fallen to 1.1 million units, 20% below the peak reached last November. Little or no real output growth is expected during the remainder of the year.

On a more positive note, after more than 2 years of modest deceleration in the growth of the money stock, albeit with occasional large fluctuations around this trend, the inflation outlook appears to be improving. Persistent declines in prices of food and non-food commodities, including the price of oil, are contributing to the more hopeful outlook for inflation. In May, the increase in the Consumer Price Index from 12 months earlier had fallen slightly below 10%, a considerable reduction from the 14-1/4% increase in this measure during the 12 months ending June 1980.

Treasury bill rates at mid-year stand well below the peak levels reached during 1980, but current levels nonetheless remain higher than projections made last winter. In view of the recent progress in reducing inflation, and the expectations of additional progress against inflation as a result of the Administration's strong fiscal control plan,[and the Federal Reserves lower money growth path,] further declines in interest rates are anticipated during the second half of the year. Indeed, it is possible that inflation and interest rates will abate more quickly during the months ahead than the current forecast suggests.

In comparison to the economic assumptions underlying the March budget revisions, the main budgetary implications of the current outlook are: lower automatic cost-of-living adjustments for indexed Federal programs, particularly in 1983 and subsequent years, but somewhat higher outlays for interest on the public debt and other interest-rate-sensitive programs in 1981, 1982, and 1983.

THE PRESIDENT'S ECONOMIC RECOVERY PROGRAM

o Rationale: We inherited an economy characterized by high inflation, high unemployment, low growth, low savings, and declining productivity. Fundamental redirection focused on control of inflation and on supply-side incentives to save, invest, and work.

o The President's Economic Program is a coordinated, consistent, and balanced long-term policy designed to reverse these adverse trends. It consists of four mutually-reinforcing parts:

-- Stringent budget policy (about $275 billion in budget reductions from previous plans, 1982-84) designed to release resources for investment in the private sector, reduce deficits, and achieve a balanced budget by 1984. At the same time defense increases will total $66 billion (1982-84).

-- Incentive tax policy of personal and business tax cuts to restore incentives to work, save, and invest -- reviving real long-term growth and productivity.

-- Regulatory reform program to reduce the size of Government and costs to business while eliminating Government interference in the market place.

-- Monetary policy consistent with expected non-inflationary real growth.

o All parts of the program are anti-inflationary:

-- Declining deficits - military increases offset by massive cuts in other areas

-- Increased savings, investment, and productivity through tax cuts

-- Reduced regulation

-- Reduced monetary growth

o High interest rates are not one of the policy tools or a result of relying on "tight money"; they are a reflection of inflation and inflationary expectations. Many of our own industries (housing, thrifts, autos and small business) suffer from them, as much or more than our Summit partners.

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- We will intervene when disorderly or crisis conditions affect the dollar exchange markets.

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- Risking taxpayer money in an abortive attempt to affect exchange rates would be counter-productive.

- Our duty as the major reserve and trading currency nation is to achieve growth and price stability at home. Thus the dollar will be firm and respected and will insure the health of the international monetary system. Our trading partners will gain.

- Unanticipated intervention destabilizes exchange markets whereas policy of minimal intervention provides certainty, thereby stabilizing the market.

- The recent strength in dollar is due to:

  -- Growing confidence in our dedication to price stability and growth.

  -- Increasing inflationary pressures in many European countries.

  -- Political uncertainty in Europe - (France, Italy and Poland).

- Higher interest rates in the U.S. than abroad had a minor and temporary effect on dollar strength. Low inflation countries typically have low interest rates and strong currencies -- Switzerland, Germany, and Japan.

- Years of high interest rates and massive intervention in international markets did not prevent the dollar from falling sharply from 1976 to 1980. Similarly, heavy intervention from July 1980 to early this year did not prevent the dollar from rising strongly.

- With instant communication and integrated international markets, the Government is unable to hold the international value of its currency at an artificial level. If it tries, it will first waste its international reserves, then its international credit lines. Who pays for this? The taxpayer.

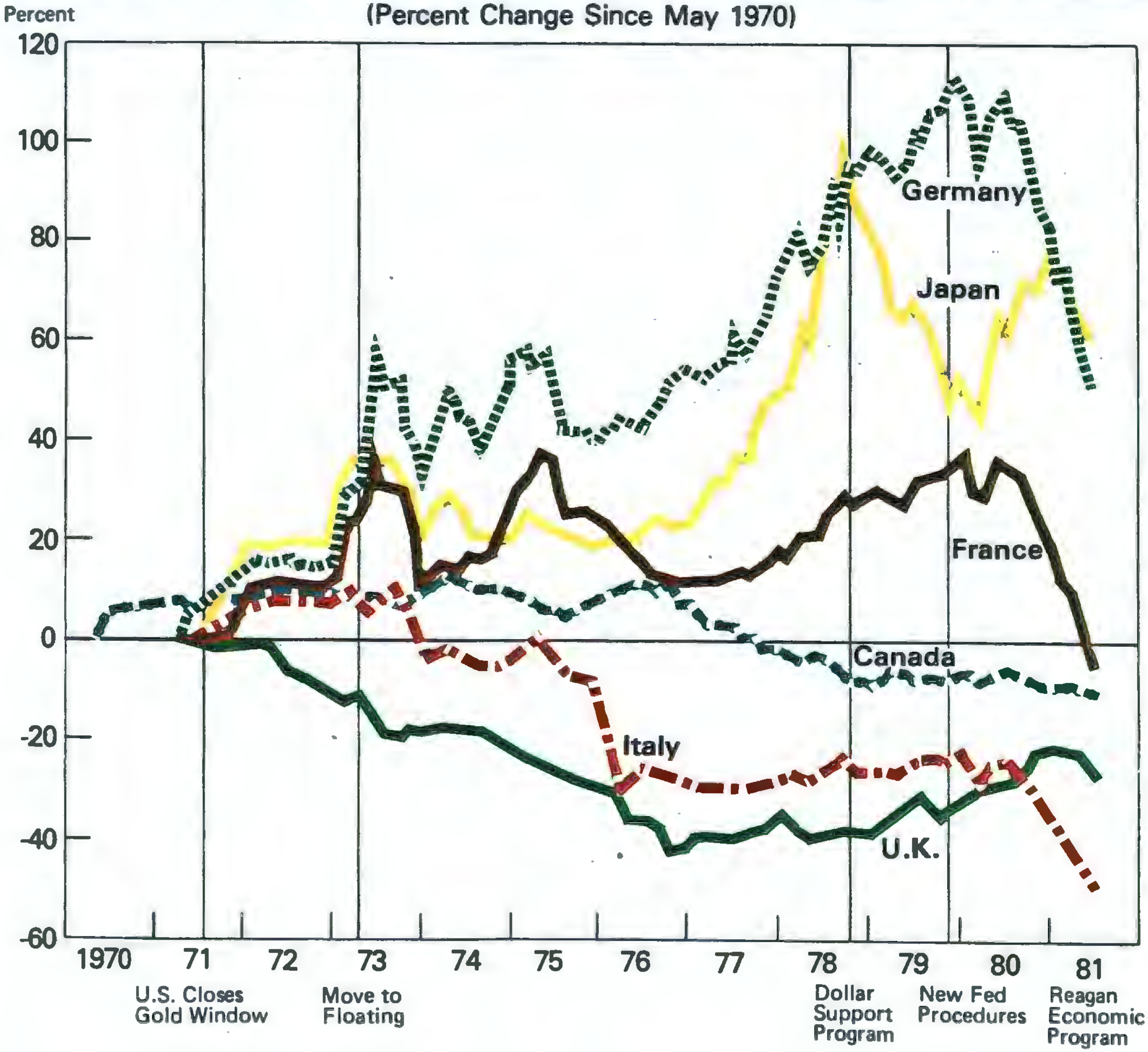
- We believe exchange rate stability will emerge in a developed world of low inflation. Artificial exchange rate intervention will not achieve exchange rate stability when we or our trading partners pursue policies leading to high and volatile inflation rates. We are not going to have high inflation.

- We promise cooperation and consultation in achieving coordinated economic policies to promote low inflation and growth. We cannot commit to ineffective exchange intervention in an environment of diverse national inflation rates.

- Obviously we will continue through the central banks to have a swap line available.

Bilateral Exchange Rates of Summit Countries Against the Dollar

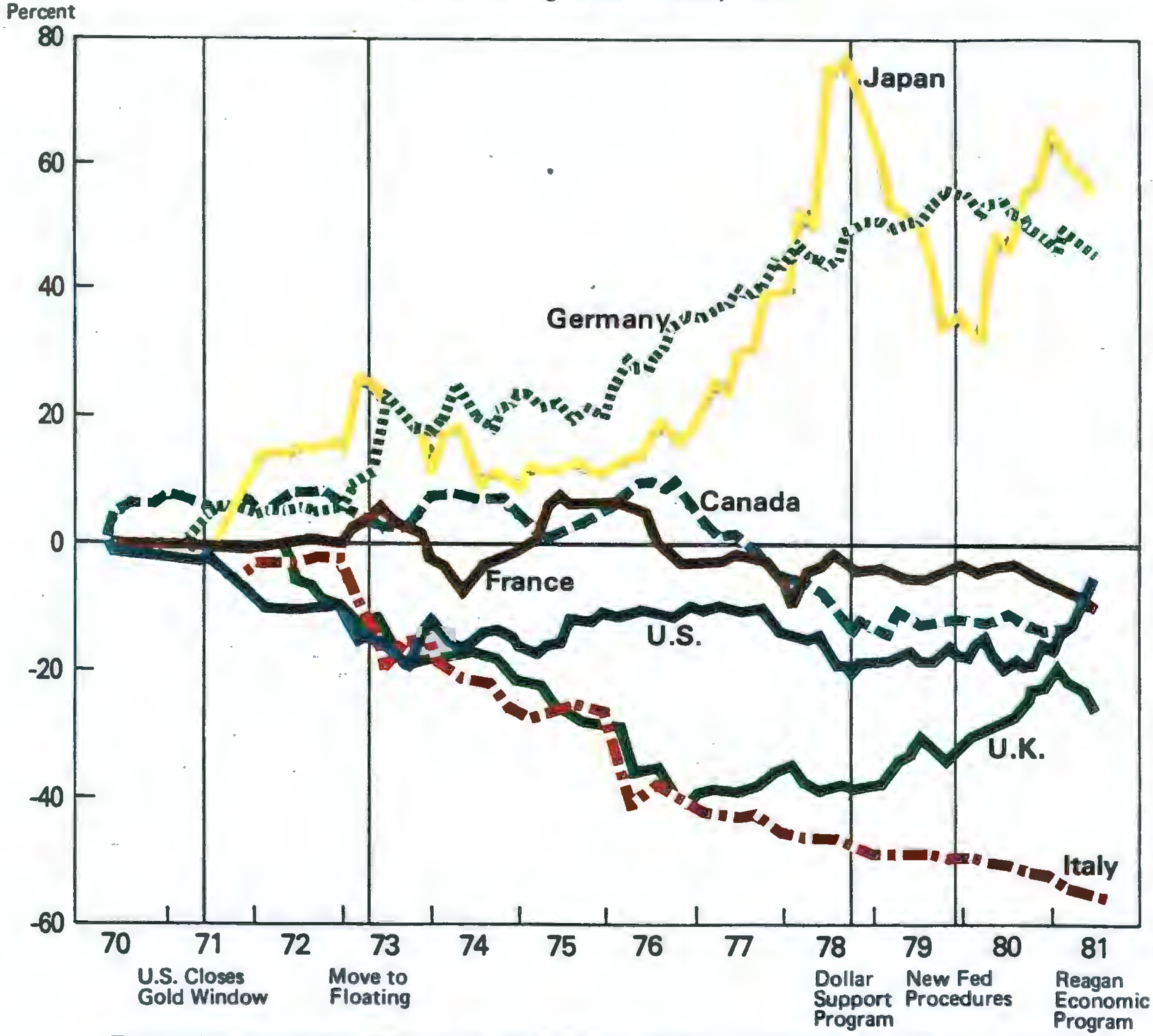
(Percent Change Since May 1970)



Source: U.S. Treasury, July 1981

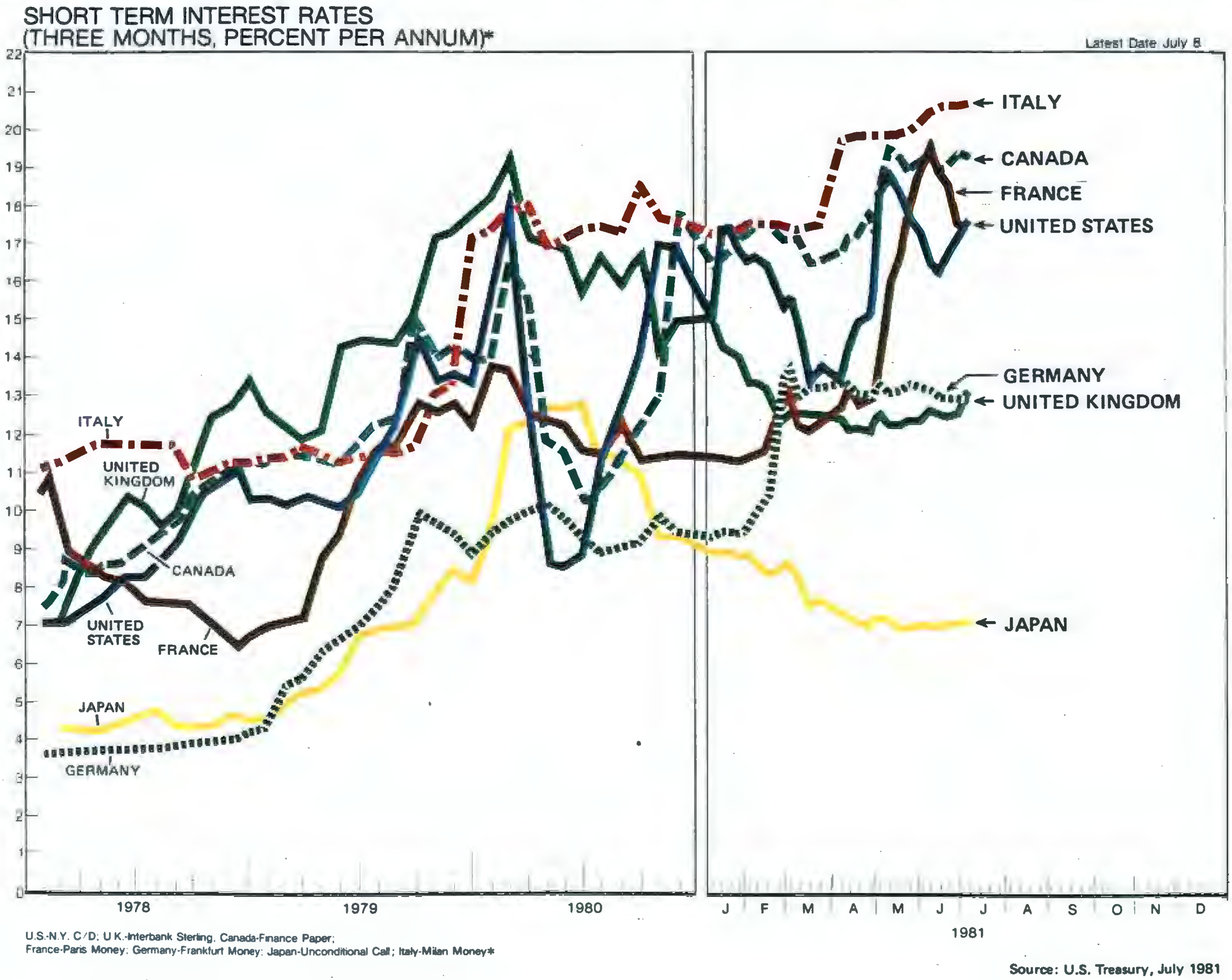
Trade-Weighted Exchange Rates* of Summit Countries vs. the OECD

(Percent Changes Since May 1970)



*Trade-weighted exchange rate is a weighted average of individual exchange rate movements, with weights based on bilateral trade shares.

Source: U.S. Treasury, July 1981


SHORT TERM INTEREST RATES
(THREE MONTHS, PERCENT PER ANNUM)*
Latest Date July 8
22
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U.S.-N.Y. C/D; U.K.-Interbank Sterling, Canada-Finance Paper;
France-Paris Money; Germany-Frankfurt Money; Japan-Unconditional Call; Italy-Milan Money*
Source: U.S. Treasury, July 1981

TRADE: MAJOR POINTS

- It is essential to resist protectionism, to implement the Multilateral Trade Negotiation (MTN) agreements completed in 1979, and to cooperate to maintain an open world trade system.

- All Summit countries should accept the operation of market forces in bringing about national reallocations of manpower and resources in response to trade-related pressures for structural adjustment.

- We should seek an agreement substantially reducing official export credit subsidies immediately, or at least by the end of the year, and try to eliminate them completely in the long term.

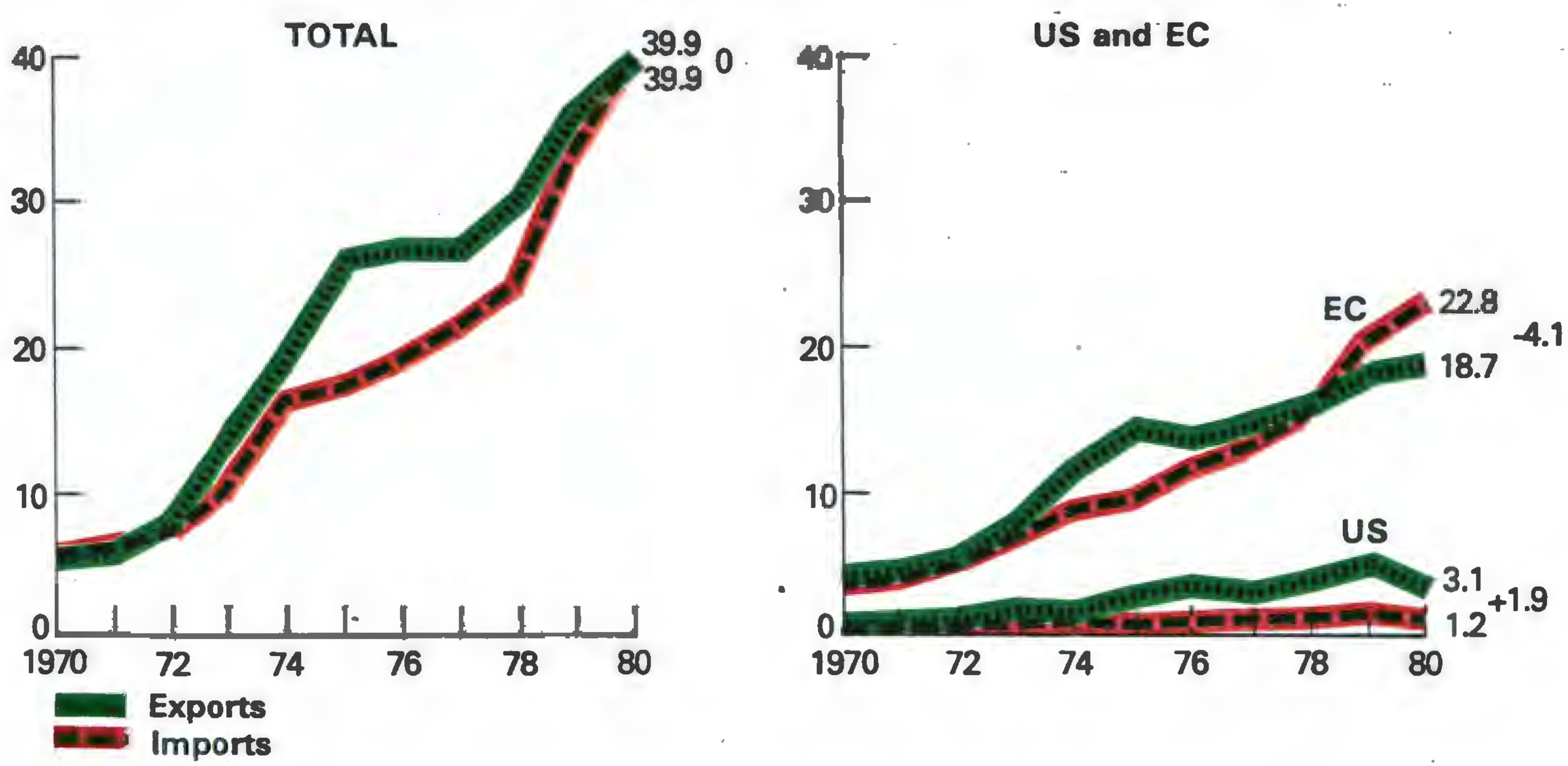
- We should seek full and effective implementation of the MTN agreements and completion of unfinished MTN business: conclusion of a GATT safeguards code and a GATT countervailing code.

- We should support the OECD study of major trade issues to be addressed during the 1980s. Support GATT ministerial meeting in 1982.

- We consider trade liberalization in services and negotiation of trade-related investment issues as high priority items for inclusion on the trade agenda for the 1980s.

Industrial Country Trade With USSR and Eastern Europe

($ Billion)



Source: U.S. Treasury, July 1981

NORTH-SOUTH: MAJOR POINTS

- We are concerned about LDC problems. Our effort to address problems of Caribbean region is one aspect of that concern.
- We will honor previously-negotiated agreements in Multilaterial Development Banks.
- But emphasis must be on expanding trade, private investment, vigorous economic recovery -- and appropriate LDC policies. Aid can make only a marginal contribution and is limited.
- We are not prepared to agree to Global Negotiations. We will consider them after Cancun.
- We urge our partners to hold firm on no negotiation and no communique at Cancun.
- We should reorient World Bank energy activity to encourage greater private sector involvement in LDC energy development, within available or pledged resources. A new World Bank energy affiliate is not needed.

ENERGY POLICY: MAJOR POINTS

- The current soft oil market provides an opportunity to take serious action to improve our energy security.

- The U.S. is committed to cooperation in oil supply emergencies.

  - We support IEA oil sharing system.

  - We will maintain the domestic authority we need to meet our commitments under it.

- Large oil stocks and reliance on market forces offer the most effective protection against small supply interruptions. We are building our strategic oil reserves and urge other countries to build up their own oil safety stocks. We intend to continue to rely primarily on market mechanisms, supplemented by government actions as necessary.

- We believe that nuclear power is vital; we are moving to restore our image as a reliable and responsible nuclear supplier.

- Although the U.S. gives high priority to LDC energy development:

  - Bulk of the resources must come from the private sector.

  - World Bank has an important role to play in facilitating and complementing private sector efforts. Bank should be encouraged to make maximum effort, within the resources presently available or pledged to it, to catalyze private investment in LDC energy.

  - We support this avenue rather than creation of a new World Bank energy affiliate.

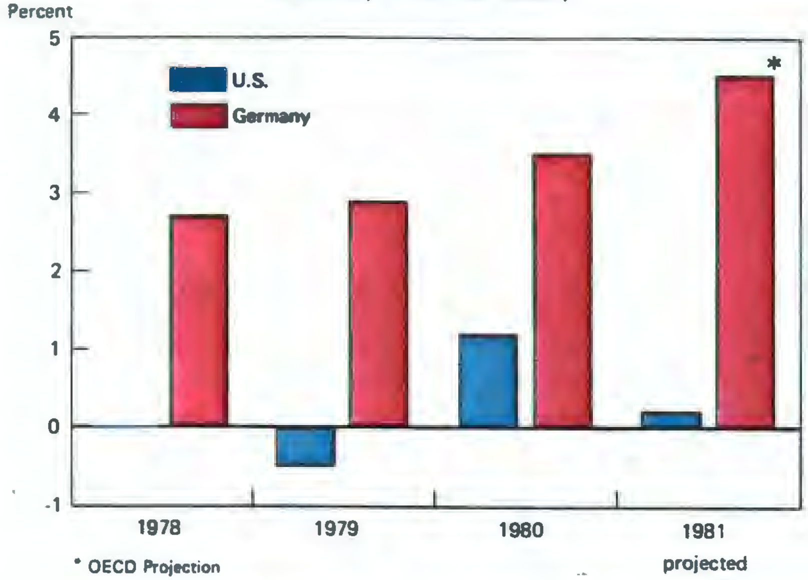
GERMANY: CURRENT ECONOMIC SITUATION AND OUTLOOK

Growth:	Economic growth slowed in 1980 to 1.8 percent. Weak recovery is expected this year from recession in the latter part of 1980.
Inflation:	Cost-of-living expected to rise about 5 percent in 1981 after 5.5 percent in 1980.
Current Account:	In 1980 deficit tripled to $16 billion, but is expected to remain large in 1981.
Policy Stance:	Total government deficit expected to rise again this year -- to 4.5 percent of GNP (very large by German standards). Monetary growth remains within the lower half of 1981 target range of 4 to 7 percent.

Germany: Selected Economic Indicators

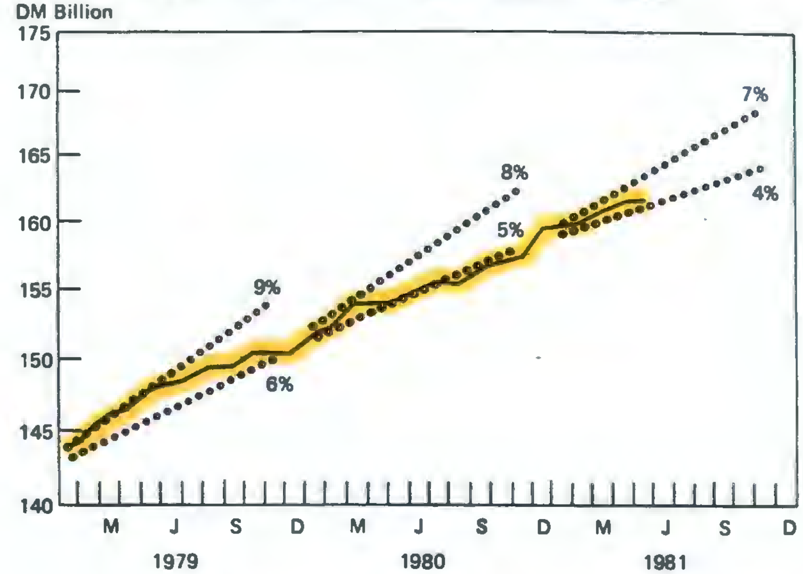
Fiscal Policy

(Government Deficit as Share of GNP)
(Federal, State and Local)



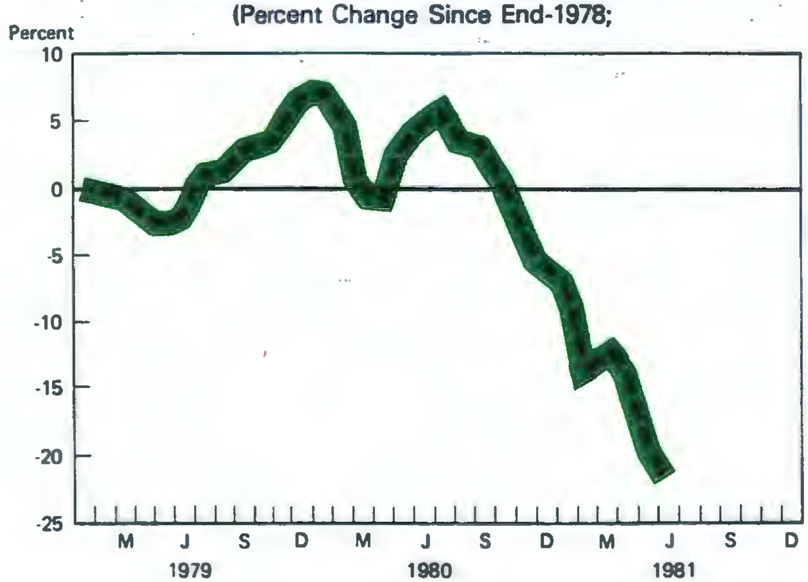
Germany: Money Growth

(Central Bank Money: Target Range vs. Actual)



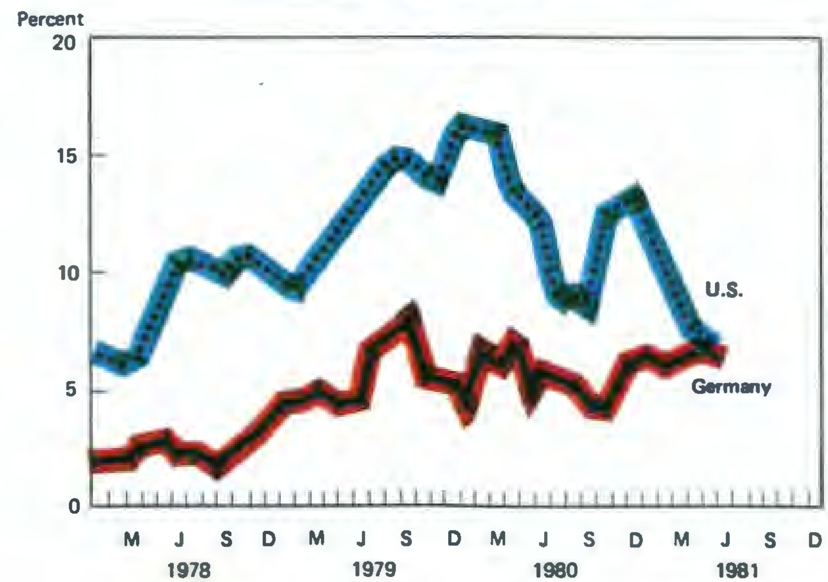
Exchange Rate: German Mark vs. U.S. Dollar

Plus Indicates Appreciation of German Mark)
(Percent Change Since End-1978;



Inflation Rates

(Consumer Prices: 3-Month Averages)



Source: U.S. Treasury, July 1981

FRANCE: CURRENT ECONOMIC SITUATION AND OUTLOOK

Growth: Growth expected to decline to +0.5 percent in 1981 after +1.3 percent in 1980.

Inflation: Cost-of-living forecast at around 13 percent, same as 1980.

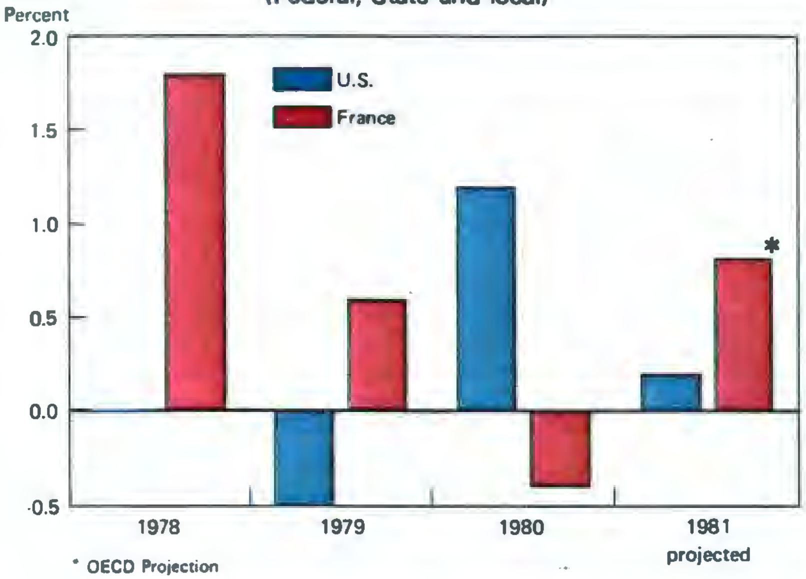
Current Account: Deficit projected to remain large this year following 1980s $7.5 billion.

Policy Stance: Budget policy is shifting toward expansion, with public sector deficit amounting to nearly 1 percent of GDP in 1981, after a surplus in 1980. Money supply growth has accelerated to 16 percent annual rate, well above target of 10 percent growth. Committed to increasing minimum wage; raising unemployment compensation; nationalizing banks and other firms; expanding government jobs; raising taxes on high incomes, bank profits and domestic oil production; and shortening the work week.

France: Selected Economic Indicators

Fiscal Policy

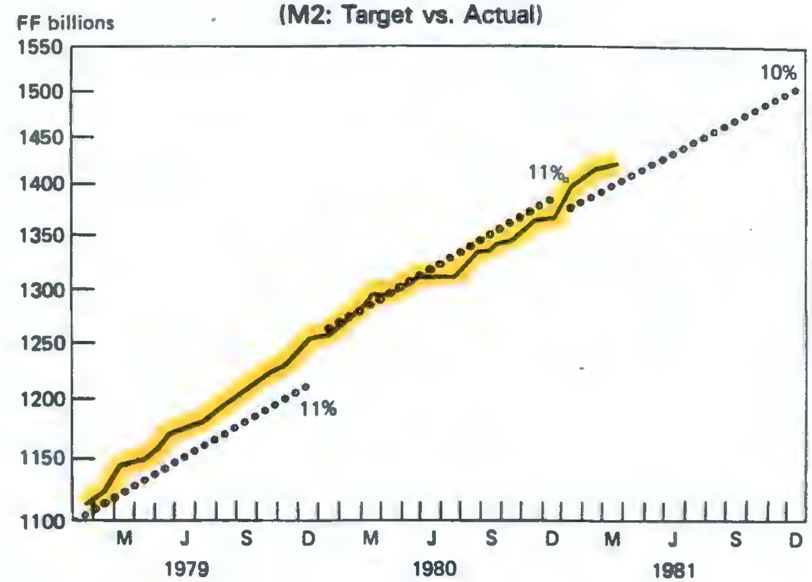
(Government Deficit as Share of GNP)
(Federal, State and local)



* OECD Projection

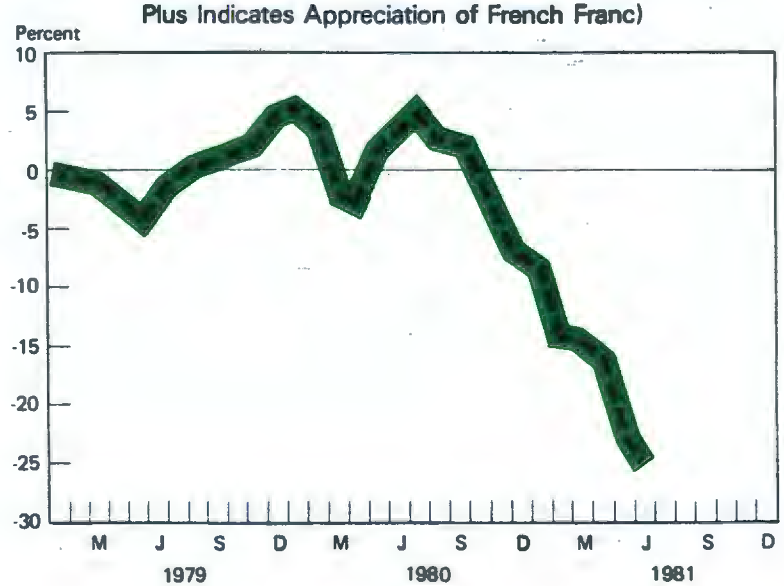
France: Money Growth

(M2: Target vs. Actual)



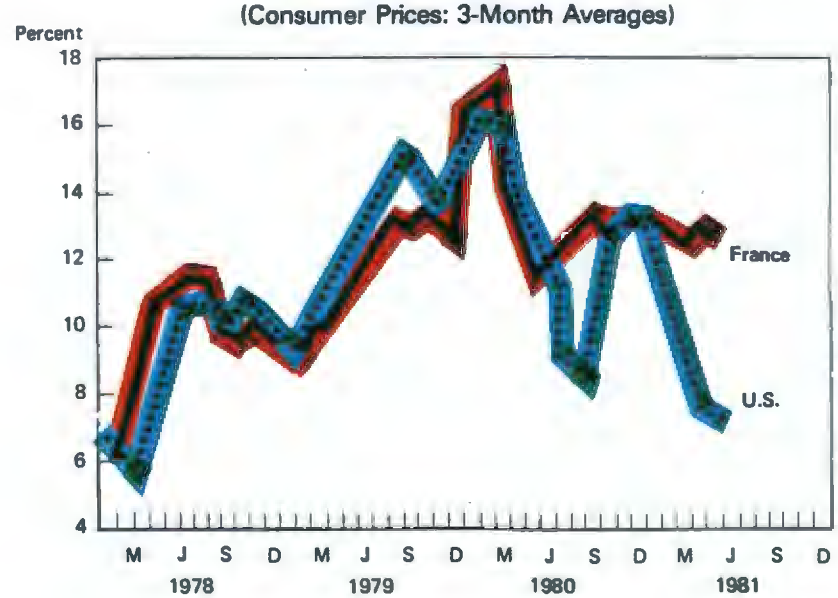
Exchange Rate: French Franc vs. U.S. Dollar

(Percent Change Since End-1978;
Plus Indicates Appreciation of French Franc)



Inflation Rates

(Consumer Prices: 3-Month Averages)



Source: U.S. Treasury, July 1981

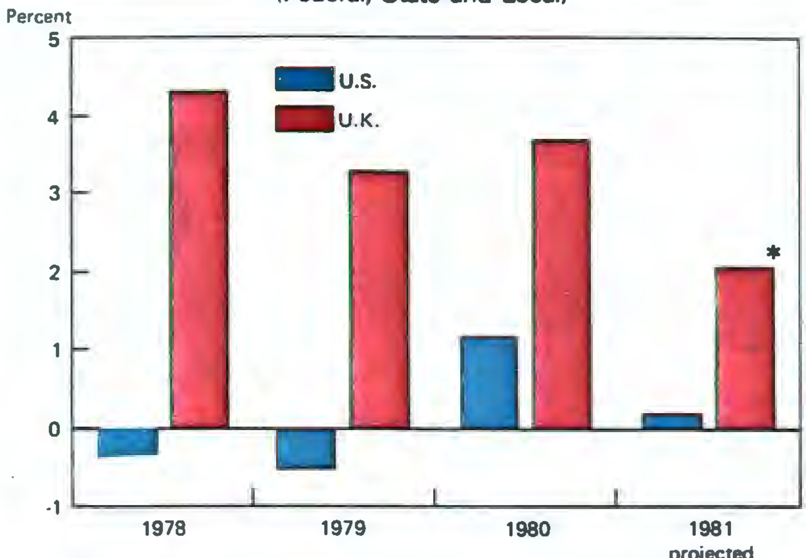
UNITED KINGDOM: CURRENT ECONOMIC SITUATION AND OUTLOOK

Growth:	Output fell sharply in 1980, should fall further in 1981. But recession may now be ending and recovery should begin this fall.
Inflation:	Cost-of-living rose 18 percent in 1980, but is expected to rise only 11-1/2 percent in 1981. However, inflation rate rising again in recent months.
Current Account:	Has benefitted substantially from North Sea oil. Surplus over $6 billion in 1980, and substantial surplus expected to continue.
Policy Stance:	Taxes have been increased to reduce the budget deficit (expenditure control has proved difficult). Monetary growth this year is again well in excess of target.

United Kingdom: Selected Economic Indicators

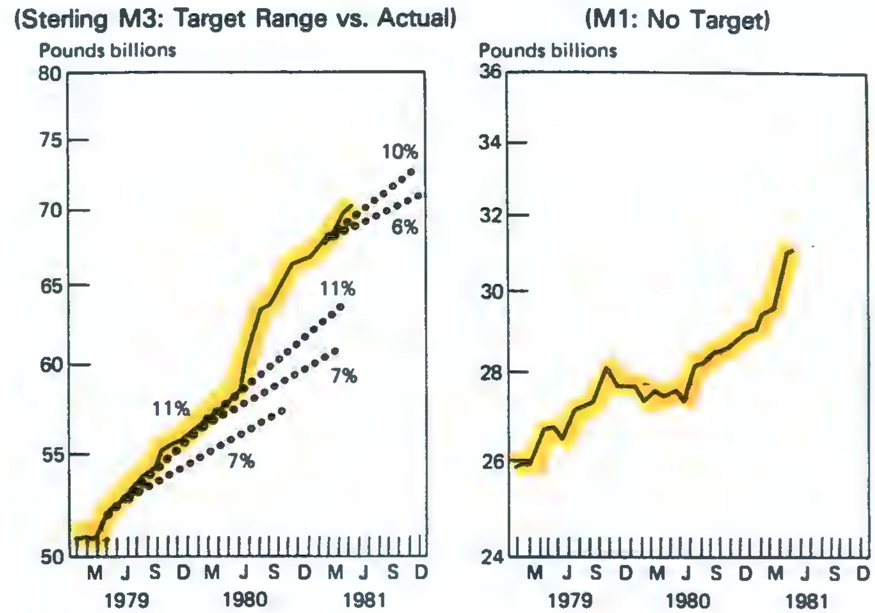
Fiscal Policy

(Government Deficit as Share of GNP)
(Federal, State and Local)



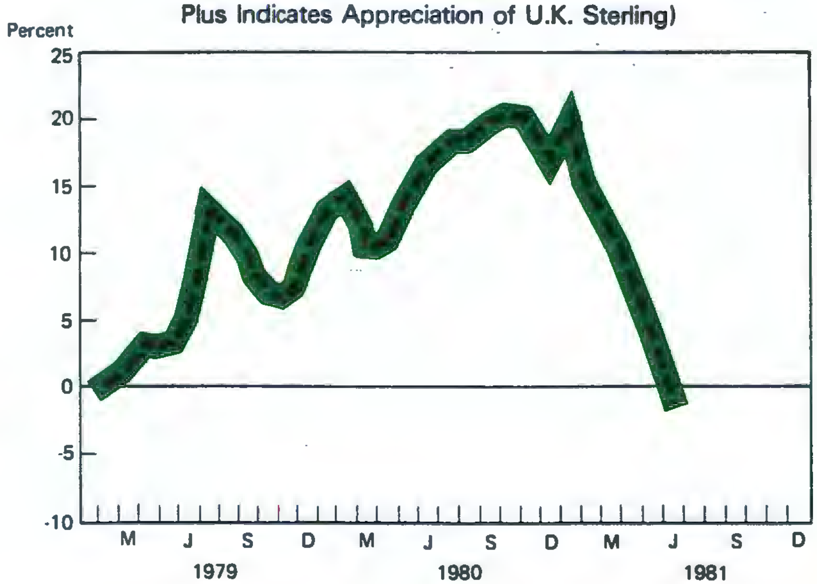
* OECD Projection

United Kingdom: Money Growth



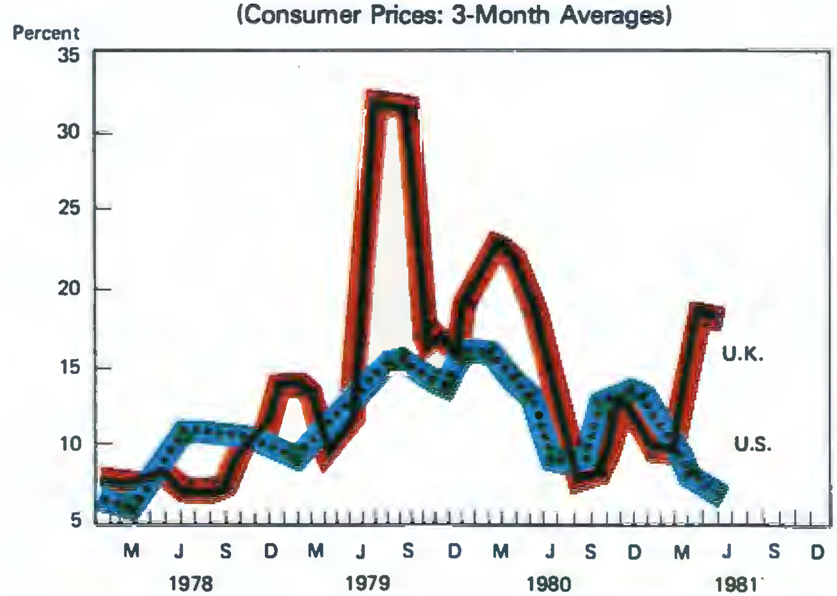
Exchange Rate: U.K. Sterling vs. U.S. Dollar

(Percent Change Since End-1978;
Plus Indicates Appreciation of U.K. Sterling)



Inflation Rates

(Consumer Prices: 3-Month Averages)

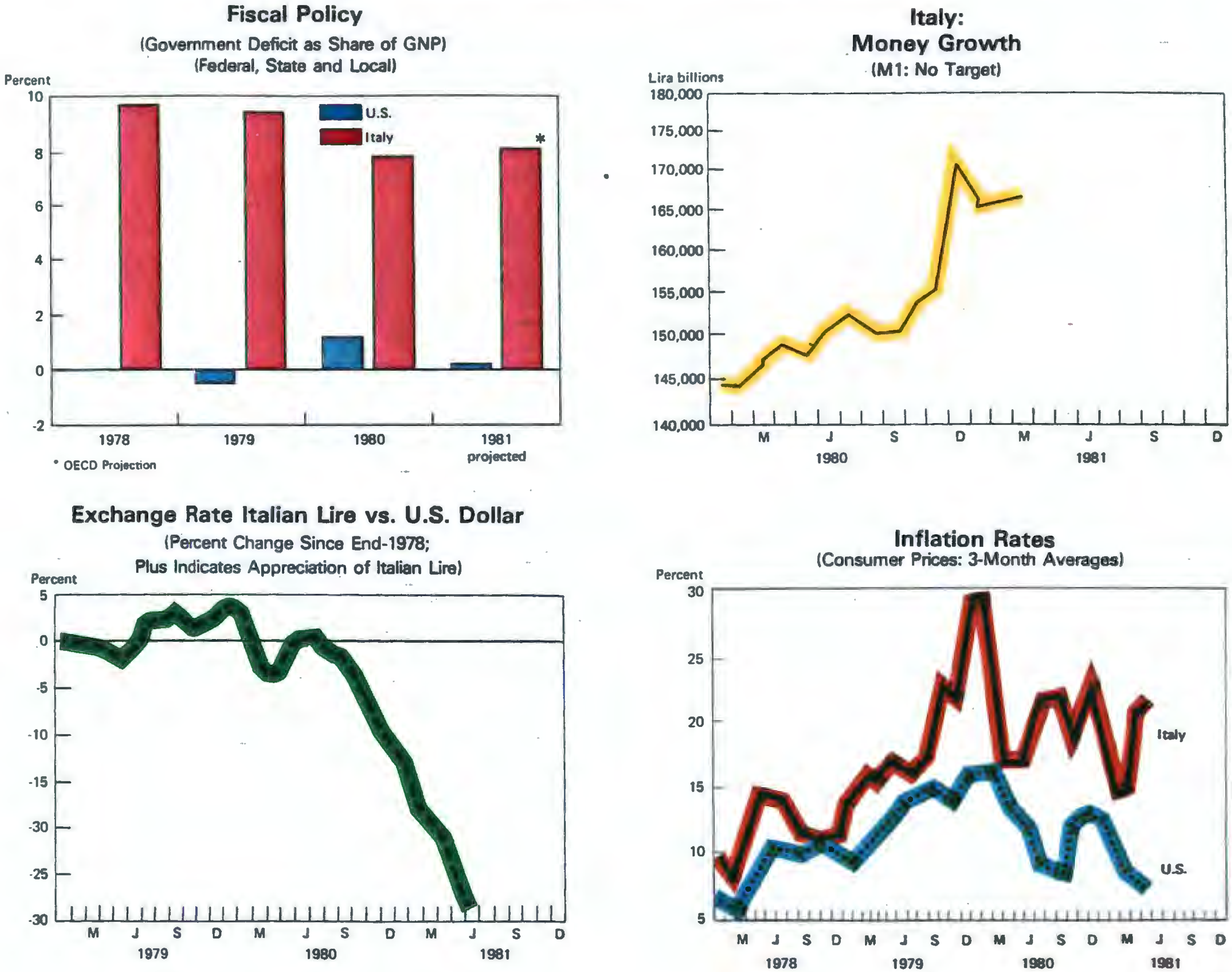


Source: U.S. Treasury, July 1981

ITALY: CURRENT ECONOMIC SITUATION AND OUTLOOK

Growth:	Output grew 4 percent in 1980, but a recession, with about a one-half percent decline in GNP, is anticipated for 1981.
Inflation:	Consumer prices rose 21 percent in 1980, and little, if any, improvement is expected in 1981. Inflation rose sharply in second quarter.
Current Account:	Sharp deterioration last year led to a $10 billion deficit. Little improvement expected in 1981.
Policy Stance:	Fiscal and monetary policies have been expansionary. The total government deficit is over 8 percent of GNP. Money supply has grown rapidly.

Italy: Selected Economic Indicators



Source: U.S. Treasury, July 1981

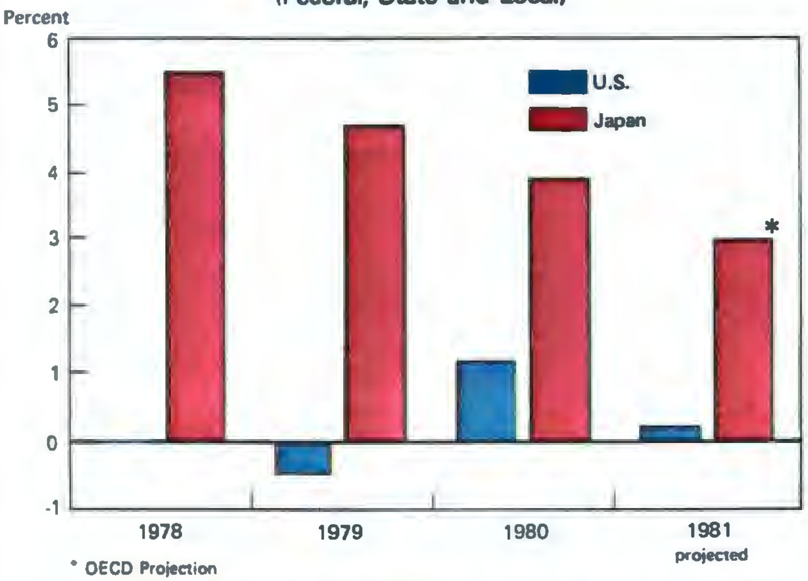
JAPAN: CURRENT ECONOMIC SITUATION AND OUTLOOK

Growth:	Growth will slow to about 3-1/2 percent this year after 4.2 percent in 1980.
Inflation:	Cost-of-living increases have slowed during 1981. Last year inflation was 7 percent. This year expect around 5 percent.
Current Account:	Undergoing strong improvement. Rough balance is expected for 1981 after a near $11 billion deficit in 1980.
Policy Stance:	Fiscal policies continue to be tightened to reduce the large central government budget deficit. Growth of monetary aggregates has been declining since early 1979, but accelerated in April and May of this year. Interest rates have gradually fallen to 7 percent level. Have large surplus trade accounts with U.S. ($7 billion in 1980 -- Japanese data) and with EC ($9 billion in 1980 -- Japanese data).

Japan: Selected Economic Indicators

Fiscal Policy

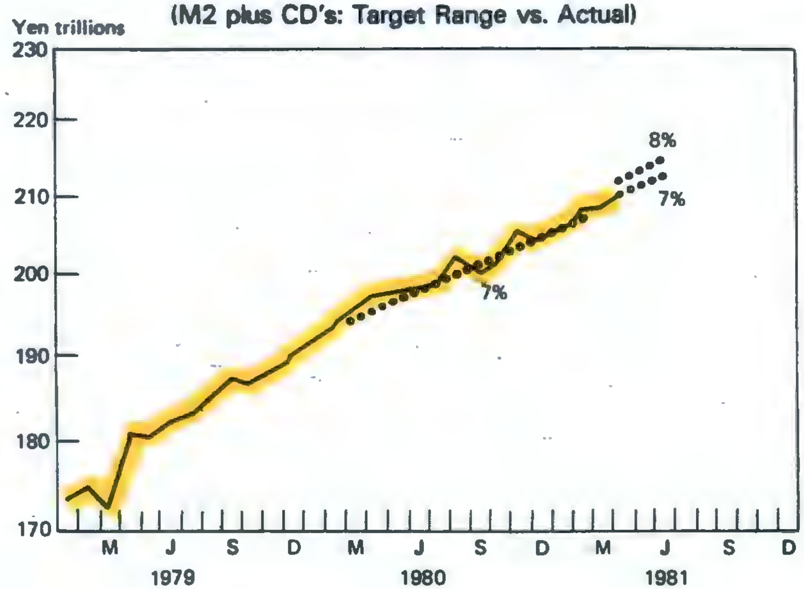
(Government Deficit as Share of GNP)
(Federal, State and Local)



* OECD Projection

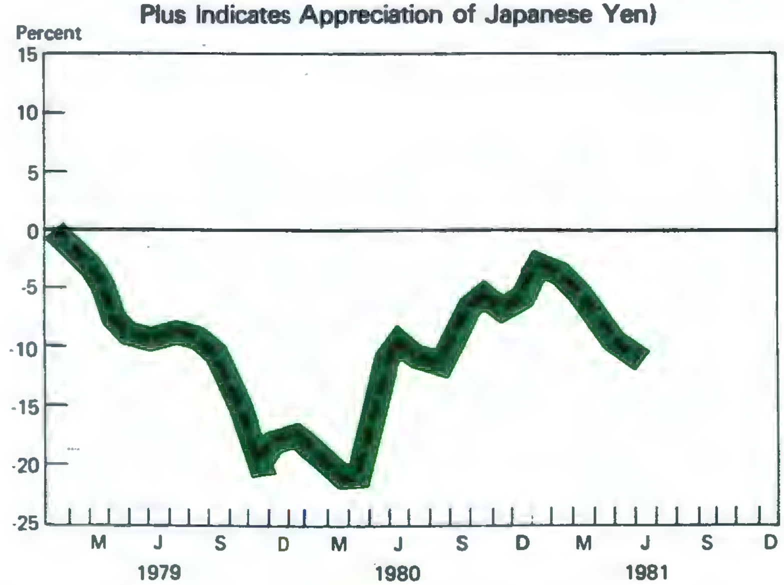
Japan: Money Growth

(M2 plus CD's: Target Range vs. Actual)



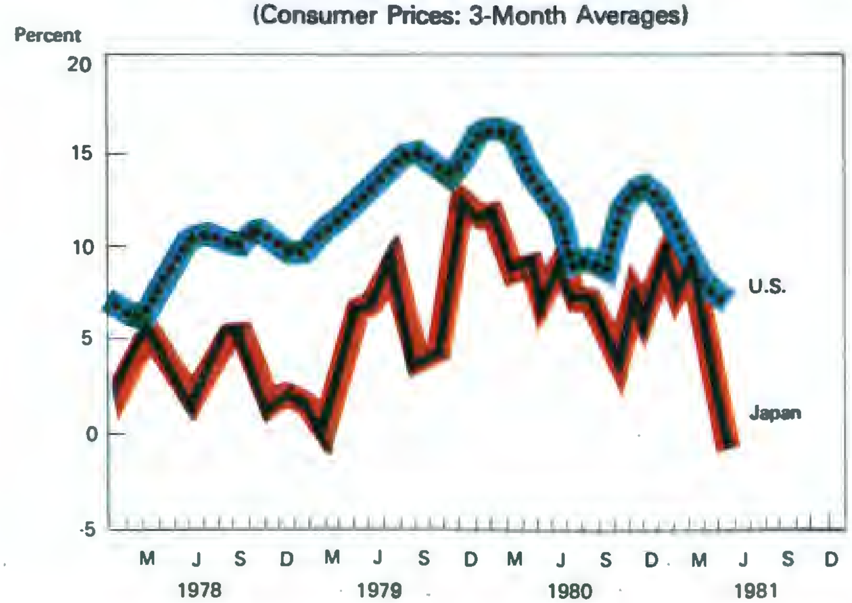
Exchange Rate: Japanese Yen vs. U.S. Dollar

(Percent Change Since End-1978;
Plus Indicates Appreciation of Japanese Yen)



Inflation Rates

(Consumer Prices: 3-Month Averages)



Source: U.S. Treasury, July 1981

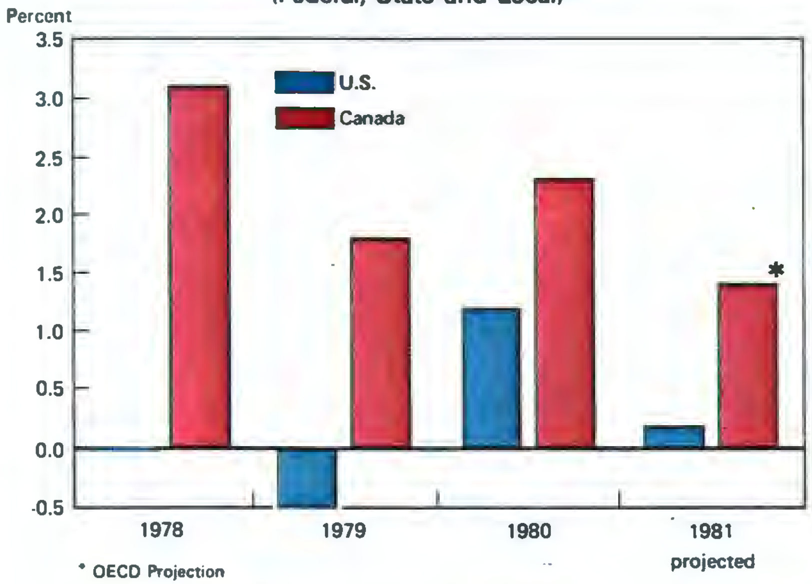
CANADA: CURRENT ECONOMIC SITUATION AND OUTLOOK

Growth:	Following about zero real growth in 1980, output will rise more than 2 percent in 1981.
Inflation:	Cost-of-living rose 10 percent in 1980 with 12 percent forecast for 1981. But the inflation rate is now falling from winter peak.
Current Account:	Small 1980 deficit (about $1 billion). Larger deficit (about $4 billion) expected in 1981.
Policy Stance:	Federal budget deficit will be reduced by new energy taxes this year. Growth of money supply has been volatile, but is now within chosen target range.

Canada: Selected Economic Indicators

Fiscal Policy

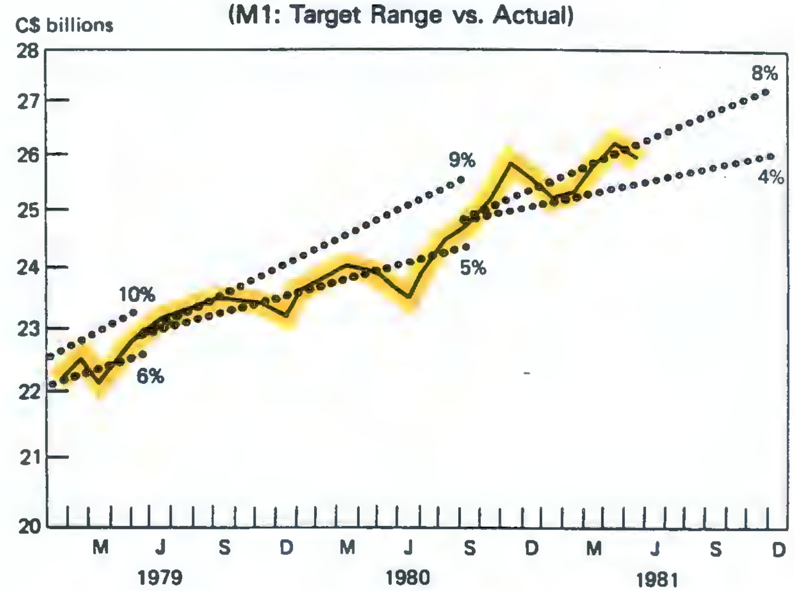
(Government Deficit as Share of GNP)
(Federal, State and Local)



* OECD Projection

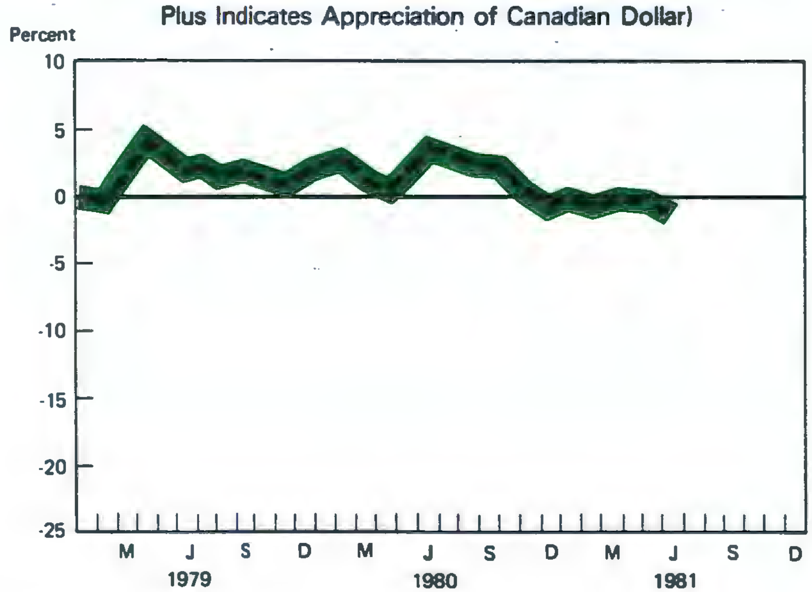
Canada: Money Growth

(M1: Target Range vs. Actual)



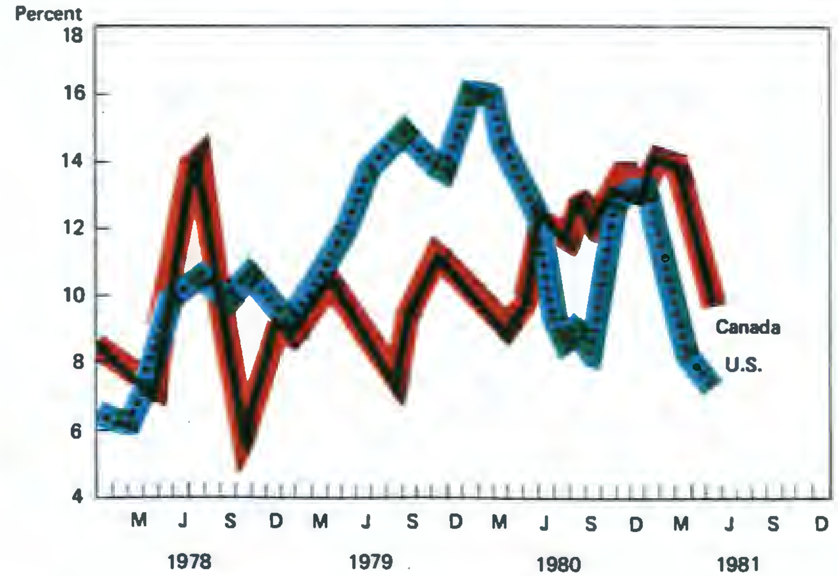
Exchange Rate: Canadian Dollar vs. U.S. Dollar

(Percent Change Since End-1978;
Plus Indicates Appreciation of Canadian Dollar)



Inflation Rates

(Consumer Prices: 3-Month Averages)



Source: U.S. Treasury, July 1981

UNITED STATES

SUMMARY OF ECONOMIC STATISTICS AND BUDGET TOTALS

	1975	1976	1977	1978	1979	1980
	(------------------	------------------	actual	------------------	------------------	------------------)
			Calendar year			
Economic statistics						
Nominal GNP	1549	1718	1918	2156	2414	2626
Real GNP ($1972)	1234	1300	1372	1437	1483	1481
Real growth rate(%)	-1.1	5.4	5.5	4.8	3.2	-0.2
Inflation						
GNP deflator (%)	9.3	5.2	5.8	7.3	8.5	9.0
CPI (%)	9.1	5.8	6.5	7.7	11.3	13.5
Employment (millions)	84.8	87.5	90.5	94.4	96.9	97.3
Unemployment rate (%)	8.5	7.7	7.0	6.0	5.8	7.1
Nominal interest rates						
3-month bill rate	5.8	5.0	5.3	7.2	10.0	11.5
10-year bonds	8.0	7.6	7.4	8.4	9.4	11.5
Real interest rates*						
3-month bill rate	-3.5	-0.3	-0.6	-0.1	1.6	2.5
10-year bonds	0.1	0.4	0.8	1.8	2.2	3.3
				Fiscal Year		
Budget totals						
Receipts	281.0	300.0	357.8	402.0	465.9	520.0
Outlays	326.2	366.4	402.7	450.8	493.6	579.6
Surplus or deficit (-)	-45.2	-66.4	-44.9	-48.8	-27.7	-59.6
% of GNP	-3.1	-4.0	-2.4	-2.3	-1.2	-2.3

* Based on quarterly figures. Real bill rate derived by subtracting four-quarter change in GNP deflator from Treasury bill rate. Real bond yield obtained by subtracting weighted average of past changes in the GNP deflator from 10-year Treasury bond yield.

UNITED STATES

SUMMARY OF ECONOMIC STATISTICS AND BUDGET TOTALS

	1981 (Actual to date)	1981	1982	1983	1984	1985
		(projected				)
		Calendar year				
Economic statistics						
Nominal GNP	2874	2952	3296	3700	4097	4500
Real GNP ($1972)	1516	1519	1570	1648	1721	1794
Real growth rate(%)	3.2	2.6	3.4	5.0	4.5	4.2
Inflation						
GNP deflator (%)	9.2	9.6	8.0	7.0	6.0	5.4
CPI (%)	11.4	9.9	7.0	5.7	5.2	4.6
Employment (millions)	98.4	n.a.	n.a.	n.a.	n.a.	n.a.
Unemployment rate (%)	7.4	7.5	7.3	6.6	6.2	5.8
Nominal interest rates						
3-month bill rate	14.6	13.6	10.5	7.5	6.8	6.0
10-year bonds	13.4	13.4	11.8	9.5	8.2	7.5
Real interest rates*						
3-month bill rate	5.2	4.1	2.5	0.5	0.7	0.6
10-year bonds	4.6	4.4	3.0	1.5	1.1	1.3
		Fiscal Year				
Budget totals						
Receipts	--	605.6	662.4	705.8	759.0	840.4
Outlays	--	661.2	704.8	728.7	758.5	834.6
Surplus or deficit (-)	--	-55.6	-42.5	-22.9	0.5	5.8
% of GNP	--	-1.9	-1.3	-0.6	0.0	0.1

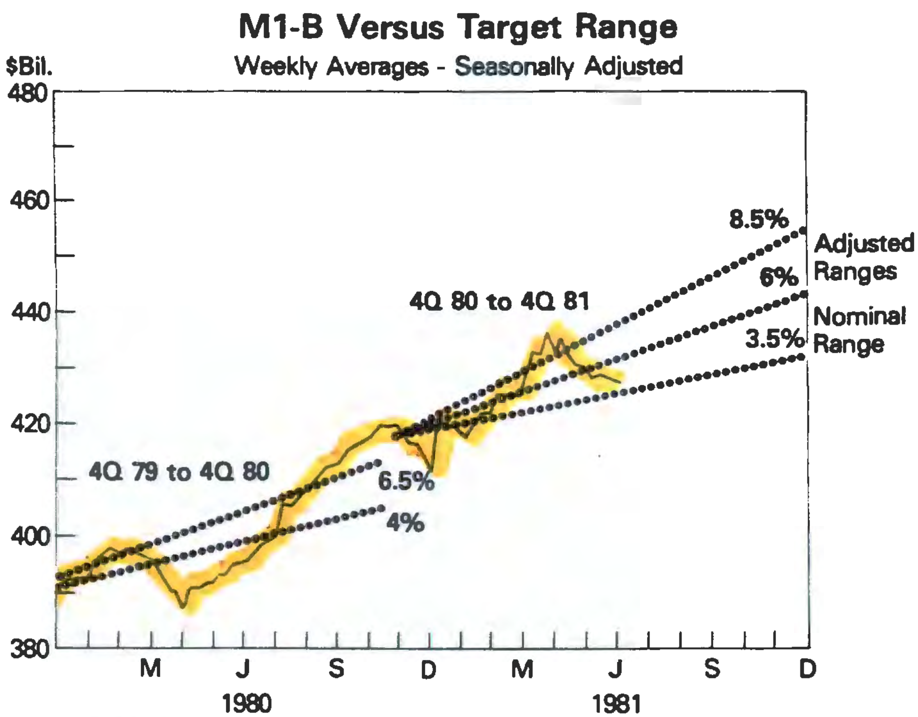
* Based on quarterly figures. Real bill rate derived by subtracting four-quarter change in GNP deflator from Treasury bill rate. Real bond yield obtained by subtracting weighted average of past changes in the GNP deflator from 10-year Treasury bond yield.

Note: Projected values for economic statistics and budget totals are from Mid-Session Review.

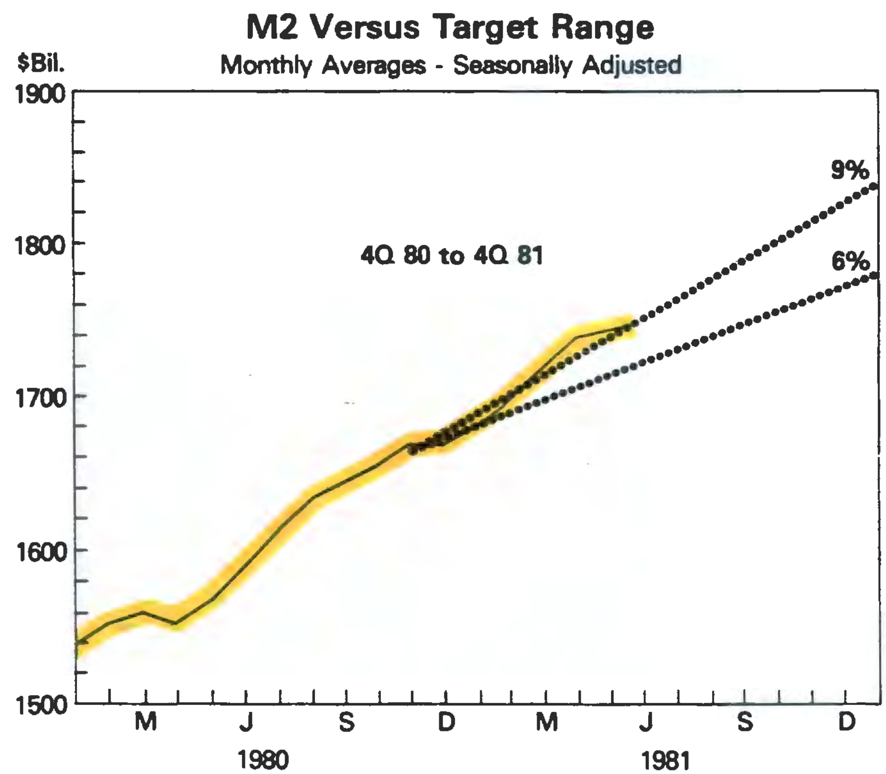
Year-to-date increases (real growth, inflation) represent change at annual rate of data available for this year from from average for 1980. Budget totals are for eight months.

7/15/81

U.S. Monetary Growth



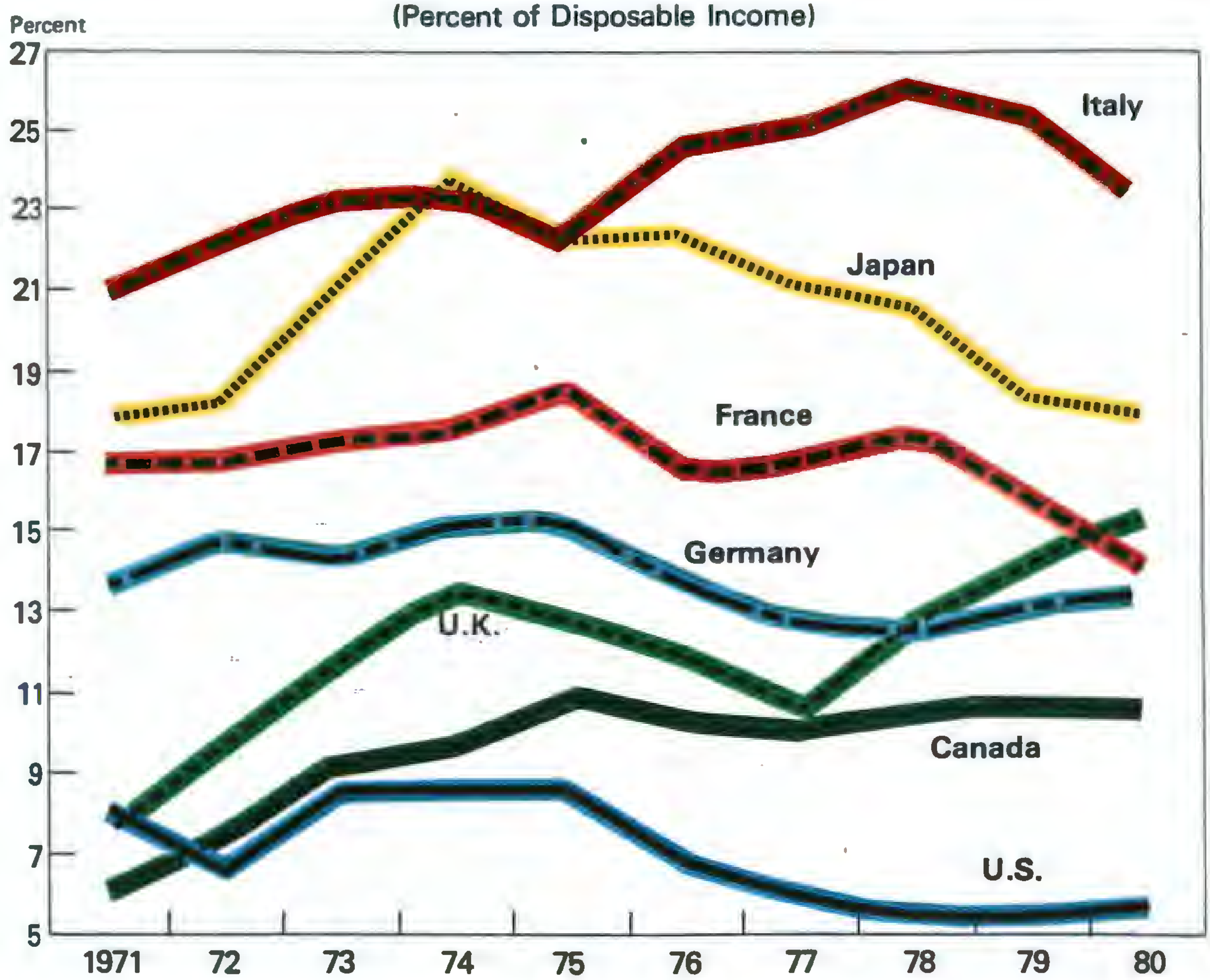
Adjusted for impact of shifts to NOW Accounts.



Source: U.S. Treasury, July 1981

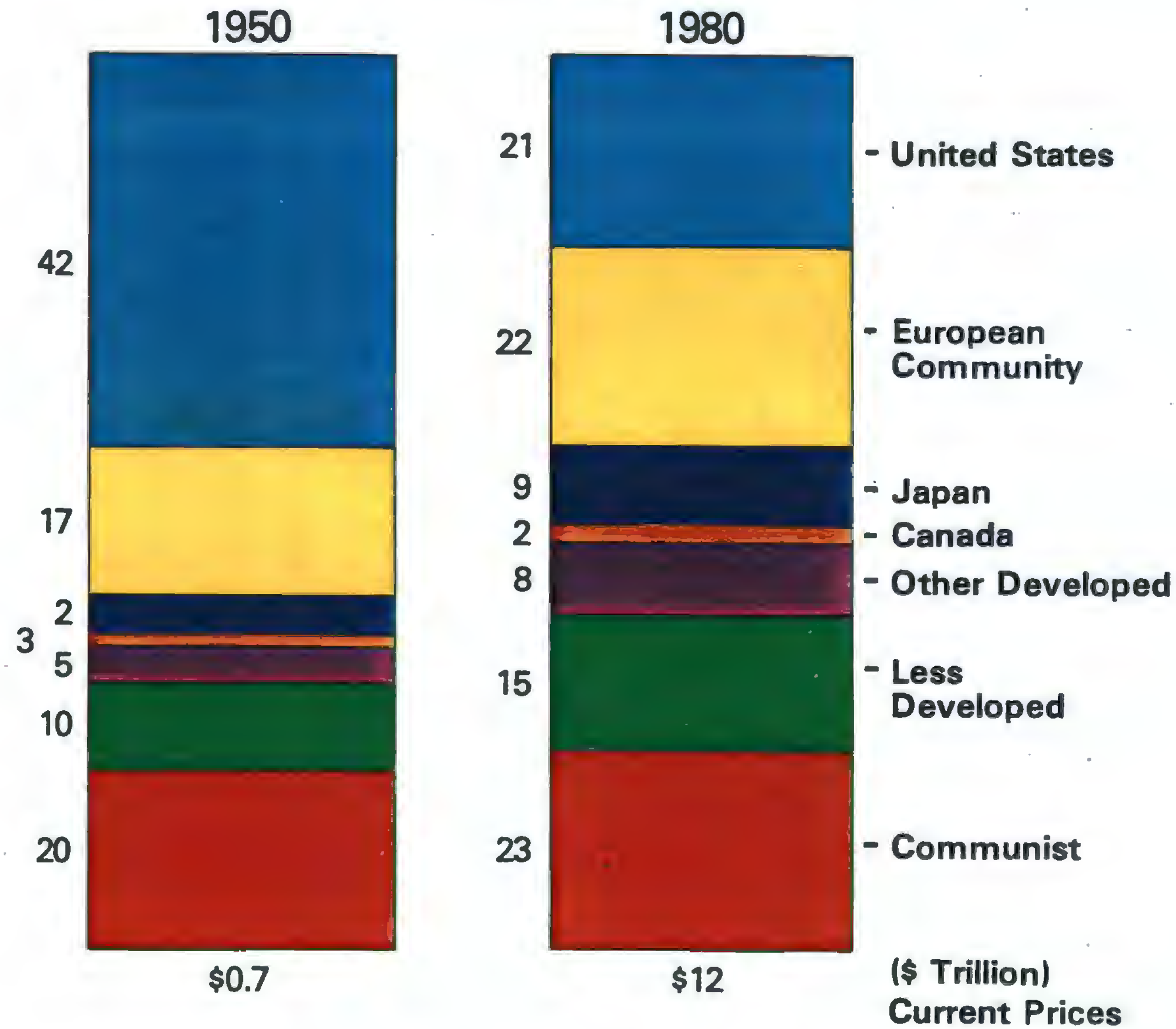
Household Savings Ratios

(Percent of Disposable Income)



Source: U.S. Treasury, July 1981

Shares of World GNP
(Percent)



Source: U.S. Treasury, July 1981

THE WHITE HOUSE

WASHINGTON

C.F.

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FG011

FG012

CABINET ADMINISTRATION STAFFING MEMORANDUM

DATE: July 17, 1981 NUMBER: 018711CA DUE BY: --

SUBJECT: Supplementary Briefing Book Developed by Dept of State

	ACTION	FYI		ACTION	FYI
ALL CABINET MEMBERS	☐	☐	Baker	☐	☐
Vice President	☐	☐	Deaver	☐	☐
State	☐	☐	Allen	☐	☐
* Treasury	☑	☑	Anderson	☐	☐
Defense	☐	☐	Garrick	☐	☐
Attorney General	☐	☐	Darman *(For WH Staffing)*	☐	☐
Interior	☐	☐	Gray	☐	☐
Agriculture	☐	☐	Beal	☐	☐
Commerce	☐	☐	______	☐	☐
Labor	☐	☐	______	☐	☐
HHS	☐	☐	______	☐	☐
HUD	☐	☐			
Transportation	☐	☐			
Energy	☐	☐			
Education	☐	☐			
Counsellor	☐	☐			
OMB	☐	☐			
CIA	☐	☐			
UN	☐	☐			
USTR	☐	☐			
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______	☐	☐			
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Remarks: Attached are additional materials for the Ottawa Summit.

*Secretary Regan
Beryl Sprinkel
Marc Leland

RETURN TO: Craig L. Fuller
Deputy Assistant to the President
Director,
Office of Cabinet Administration
456-2823