WHORM Subject File Code: FO006-06
(Economic Summit, Williamsburg, Virginia,
05/29/1983-05/30/1983)
Case File Number(s): 129800-133299

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0843

THE WHITE HOUSE

WASHINGTON

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129880
1130
FO006-06
FG011
FG006-12

February 8, 1983

MEMORANDUM FOR MICHAEL K. DEAVER

FROM: WILLIAM P. CLARK

SUBJECT: Shultz's Press Conference on Williamsburg Summit

Regarding Wallis' request that Shultz give a White House Press Briefing on the Williamsburg Summit, I assume you will have this event placed firmly on the calendar. The best time, as I understand it, is 3:00 p.m., Thursday, February 17, after the Cabinet meeting planned for 2:00 p.m. that day.

NSC# 8200843

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MEMORANDUM

NATIONAL SECURITY COUNCIL

ACTION February 4, 1983

MEMORANDUM FOR WILLIAM P. CLARK SIGNED

FROM: HENRY NAU HRN

SUBJECT: Shultz's Press Conference on Williamsburg Summit

Allen Wallis has formally requested that the White House schedule the press conference at which Secretary Shultz will brief the press on the type of Summit we are preparing at Williamsburg. As we discussed at the meeting with Deaver on Thursday, the best time appears to be Thursday, February 17, at 3:00 p.m. (after the Cabinet meeting scheduled for that day at 2:00 p.m.).

I have attached a note from you to Deaver requesting that this event be firmly scheduled.

RECOMMENDATION

That you sign the memo to Deaver at Tab I.

Approve ✓ Disapprove ____

Attachments

Tab I - Memo to Deaver
Tab A - Incoming Correspondence

8303556
8303562

UNDER SECRETARY OF STATE
FOR ECONOMIC AFFAIRS
WASHINGTON

January 27, 1983

MEMORANDUM FOR: Mr. William P. Clark
Mr. Michael Deaver

SUBJECT: Economic Summit: Date of First On-Record Press Briefing

I understand that you would like Secretary Shultz to give the first on-the-record briefing of the White House Press Corps on the type of Summit that we envisage. I request that you schedule the briefing for February 17 or February 18, those being the dates most convenient for Secretary Shultz.

Allen Wallis

Allen Wallis

8303556
8303562

UNDER SECRETARY OF STATE
FOR ECONOMIC AFFAIRS
WASHINGTON

0843

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UNDER SECRETARY OF STATE
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0843

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Allen Wallis

Allen Wallis

531

National Security Council
The White House

Package # 843

1306p

FEB 04 1983

	SEQUENCE TO	HAS SEEN	ACTION
John Poindexter	1	X	A
Bud McFarlane	2	M	
Jacque Hill	3	✓	
Judge Clark	4	✓	A
John Poindexter			
Staff Secretary	5		D
Sit Room			

I–Information A–Action R–Retain D–Dispatch N–No further Action

DISTRIBUTION

cc: VP Meese Baker Deaver Other__________

COMMENTS

WHSR
ROUTE SLIP

STAFF	C/O
Clark	
McFarlane	
Poindexter	C
DEAVER	C
Merchant	O
NSC S/S	

Time Stamp

83 FEB 15 P10: 15

WHITE HOUSE
SITUATION ROOM

C : Copy   O : Original

NSC/S PROFILE UNCLASSIFIED ID 8300843

RECEIVED 03 FEB 83 18

TO CLARK FROM WALLIS, A DOCDATE 27 JAN 83

KEYWORDS: WILLIAMSBURG SUMMIT MEDIA

SUBJECT: DATE OF FIRST ON RECORD PRESS BRIEFING RE SUMMIT

ACTION: PREPARE MEMO FOR CLARK DUE: 05 FEB 83 STATUS S FILES

FOR ACTION	FOR CONCURRENCE		FOR INFO
NAU	MCMINN	BAILEY	TYSON
	SIMS		

COMMENTS

REF# 8303556 8303562 LOG 8208766 8300809 NSCIFID (J /)

ACTION OFFICER (S)		ASSIGNED	ACTION REQUIRED	DUE	COPIES TO
Clark	X	2/4	For signature		
	C	FEB 08 1983	Clark sgd		Ha

DISPATCH ed MN FEB 08 1983 W/ATTCH FILE Wd (C)

Roberts

ID # 131088 CU

FO006-06

WHITE HOUSE CORRESPONDENCE TRACKING WORKSHEET

☐ O - OUTGOING

☐ H - INTERNAL

☐ I - INCOMING
Date Correspondence Received (YY/MM/DD) ___/___/___

Name of Correspondent: Michael A. McManus, Jr.

☐ **MI Mail Report** **User Codes:** (A) ______ (B) ______ (C) ______

Subject: Economic Summit State Dinner

ROUTE TO: ACTION DISPOSITION

Office/Agency (Staff Name)	Action Code	Tracking Date YY/MM/DD	Type of Response	Code	Completion Date YY/MM/DD
CWHolland	ORIGINATOR	83/03/23		C	83/03/29 JN
	Referral Note:				
CWAT 18	D	83/03/23		C	83/03/29 JN
	Referral Note:				
CWFIEL	S	83/03/29	FF	A	83/03/29 JN
	Referral Note:				
		/ /			/ /
	Referral Note:				
		/ /			/ /
	Referral Note:				

ACTION CODES:
- A - Appropriate Action
- C - Comment/Recommendation
- D - Draft Response
- F - Furnish Fact Sheet to be used as Enclosure
- I - Info Copy Only/No Action Necessary
- R - Direct Reply w/Copy
- S - For Signature
- X - Interim Reply

DISPOSITION CODES:
- A - Answered
- B - Non-Special Referral
- C - Completed
- S - Suspended

FOR OUTGOING CORRESPONDENCE:
- Type of Response = Initials of Signer
- Code = "A"
- Completion Date = Date of Outgoing

Comments: ________________________________

Keep this worksheet attached to the original incoming letter.
Send all routing updates to Central Reference (Room 75, OEOB).
Always return completed correspondence record to Central Files.
Refer questions about the correspondence tracking system to Central Reference, ext. 2590.

5/81

THE WHITE HOUSE

WASHINGTON

March 29, 1983

MEMORANDUM FOR MICHAEL A. McMANUS
DEPUTY ASSISTANT TO THE PRESIDENT

FROM: FRED F. FIELDING Orig. signed by FFF
COUNSEL TO THE PRESIDENT

SUBJECT: Economic Summit State Dinner

You have asked for our views on a proposal whereby the Philip Morris Company would donate the cost (exclusive of food) of the upcoming Economic Summit State Dinner. You have advised this office that the proposal was entirely unsolicited by the government and originated with Philip Morris representatives. We view this as a necessary condition to consideration of the proposal.

The State Department has statutory authority to accept gifts to carry out its functions, 22 U.S.C. § 2697(a). There is, accordingly, no purely legal bar to the proposal, provided that:

- Philip Morris neither does business with nor is regulated by the State Department;
- Philip Morris agrees to take no commercial advantage from its contribution, through advertising or any type of promotional campaign;
- Any discussions concerning the proposal are held with State Department and not White House personnel; and
- The gift complies with the requirements of 22 U.S.C. § 2697(a) (e.g., it does not result in the incurment of additional expenses not covered by the gift).

Apart from the foregoing purely legal considerations, there is an appearance problem with one company making such a sizable contribution to a highly visable government function. This proposal is significantly different from the "Food Fair" proposal, involving trade groups representing many companies, or even the recent Queen Elizabeth state dinner, which was funded by several different donors. The appearance that Philip Morris is buying favor with the government through its contribution seems well-nigh unavoidable, and those planning the Summit should give careful consideration to this problem and the potential adverse public reaction it might engender.

FFF:JGR:aw 3/29/83
cc: FFielding/JGRoberts/Subj./Chron

MEMORANDUM

THE WHITE HOUSE

WASHINGTON

March 29, 1983

MEMORANDUM FOR FRED F. FIELDING

FROM: JOHN G. ROBERTS JGR

SUBJECT: Economic Summit State Dinner

Michael McManus has asked for your views on a proposal whereby the Philip Morris Company would pay for the cost (exclusive of food) of the Economic Summit State Dinner. The dinner would be held by the State Department, which has statutory authority to accept gifts to carry out its functions:

> The Secretary of State may accept on behalf of the United States gifts made unconditionally by will or otherwise for the benefit of the Department of State (including the Foreign Service) or for the carrying out of any of its functions. Conditional gifts may be so accepted at the discretion of the Secretary, and the principal of and income from any such conditional gift shall be held, invested, reinvested, and used in accordance with its conditions, except that no gift shall be accepted which is conditioned upon any expenditure which will not be met by the gift or the income from the gift unless such expenditure has been approved by Act of Congress. 22 U.S.C. § 2697(a)(Supp. IV 1980).

This provision carries forward, with only minor stylistic changes, § 1201 of the Foreign Service Act of 1946, Pub. L. No. 79-724, 60 Stat. 999.

The State Department could, accordingly, accept the Philip Morris gift, provided that Philip Morris neither does business with nor is regulated by the State Department, and agrees not to use the fact of its contribution to commercial advantage, through advertising or any promotional campaign. Pursuant to 22 U.S.C. § 2697(a), the gift should be unconditional, although a desired use may be expressed, and may not result in the incurment of additional expenses not covered by the gift.

I discussed the question with Gene Malmborg of David Robinson's office. He saw no problems with the proposal, other than the caveats noted above. He remarked that private donations paid for the State dinner held for Queen Elizabeth during her recent visit, although in that instance the donors were a diffuse group rather than one company.

In light of the concerns you have raised about the "Food Fair" project for reporters covering the Summit, I called McManus to discuss the Philip Morris proposal. McManus assured me that the offer from Philip Morris was totally unsolicited and that it was not in response to any government suggestion or inquiry. According to McManus, Philip Morris employs many people in the Williamsburg area and its representatives simply approached Summit officials stating that they wanted to help and in particular would like to pay for the State dinner. McManus was uncertain of the potential cost but gave a rough estimate of $40,000 - $50,000.

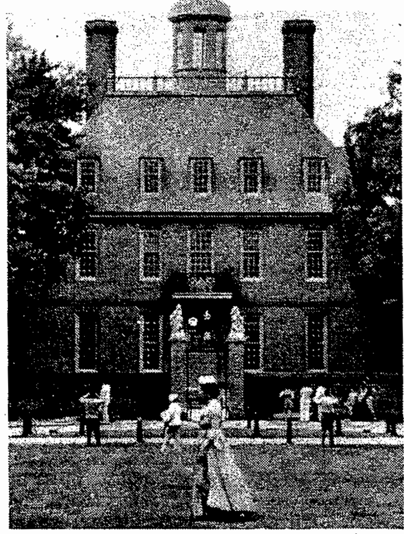
I think this proposal is more problematic than either the "Food Fair" proposal or the Queen Elizabeth dinner, because a single corporation is involved. In light of the statutory authority in 22 U.S.C. § 2697(a), and McManus' adamant assertion that the offer from Philip Morris was unsolicited, I do not think we can opine that the proposal is legally impermissible. We can, however, highlight the appearance problems for the decision-maker, and I have done so in the attached draft memorandum.

Attachment

A Pot-Luck Summit

How do you host a three-day summit conference for seven heads of state, their entourages and 6,000 hungry journalists while spending only $8 million? White House aides came up with the perfect solution: ask private businesses for contributions. So when the leaders of Britain, West Germany, Japan, Canada, France and Italy descend on Colonial Williamsburg, Va., for their eighth annual economic summit on Memorial Day weekend, they will dine on donated delicacies, have their papers copied on machines contributed by IBM and Xerox and shuttle about in a fleet of vehicles largely provided by GM, Chrysler and Ford. The Chesapeake & Potomac Telephone Co. has already laid 25 miles of telephone lines and installed 600 phones at reduced rates. Fast-food chains, meanwhile, will supply free food for the press. "Fast food is an American innovation," says White House aide Michael Deaver. "It's a great marketing device for them."

Summit planners picked $8 million as their benchmark because that's what the Ottawa meeting cost the Canadians two years ago. A special 30-member task force has been working to coordinate the tax-deductible contributions—and response has been so great that some would-be donors have been turned down for lack of space. The care and feeding of the Fourth Estate is by far the biggest expense. (Last year at Versailles, the press corps ate four times more than the French had expected.) It will cost $1 million alone to install air conditioning and electrical wiring and lower the ceilings in the basketball court of the College of William and Mary gymnasium to transform it into a press center—even though the construction company has agreed to work at cost. "Even for a rock concert, you don't have to produce the kind of power you have to have for an international press center," says chief summit planner Michael McManus.


Susan Ackerman

Williamsburg: Stretching $8 million

White House aides say not to expect too much substance from the summit. The traditional communiqué summing up the meeting has been scrapped, at Ronald Reagan's initiative, to promote open dialogue, and aides have been reluctant even to set a formal agenda. "We have purposefully downplayed any expectations," said one White House hand. Their more immediate concern was negotiating with Williamsburg town fathers for permits to allow the Japanese to ride motor bikes around the site. "That's one of those unusual requests we hadn't thought of," said one harried aide. "We thought everyone could walk."

FF:
FYI,
IN
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Reagan when he was governor of California, has close ties to Meese, Deaver and Clark, which may give him the best of sources in the Reagan White House. Weisman chats frequently with Gergen—so frequently, Baker jokes, that Gergen's title should be "assistant to The New York Times for communications." Plante is close to Deaver, a relationship that dates to the 1980 campaign; Stahl and Darman are longtime personal friends. Williamson seems to confide in syndicated columnist Robert Novak. "Forget [Reagan's anti-leaks] policy," suggests one senior aide. "Just tell Gergen he can't talk to Weisman and the networks, tell Meese and Clark they can't talk to Cannon, tell Williamson he can't talk to Novak, tell Deaver he can't talk to Plante and tell Darman he can't talk to Stahl."

But forbidding these aides to speak with reporters wouldn't work, as everyone in the White House knows. The journalistic appetite for leaks is virtually insatiable—and not only for exclusive news, but also for anecdotes and bits of colorful detail that lend life to news stories and impress both editors and readers with the sense that they are getting an insider's view of what goes on in high places. Given the full-time attention of dozens of talented, competitive reporters —and the powerful communications weapon they wield—no group of public officials can resist leakage for long. Presidents crave exposure the way ordinary mortals need air—which means the presidential keister, in all probability, will be tingling again soon.

TOM MORGANTHAU with THOMAS M. DeFRANK and ELEANOR CLIFT in Washington

A Family's Nightmare In Posh Palos Verdes

Roy D. Miller's life seemed like the American Dream come true. He was raised in southern California, married the girl next door and eventually became a respected tax specialist and a senior partner in a well-known Los Angeles law firm. He had represented Ronald Reagan since his days as governor of California, and in 1981 he became the president's personal attorney. Miller and his wife, Marguerite, raised two sons in the sun-splashed exclusivity of Palos Verdes Estates, a posh Los Angeles suburb of million-dollar homes overlooking the Pacific Ocean. The elder, Jeff, went to Dartmouth and the younger, Michael, evolved into something of a hybrid of the southern California culture—an unemployed health-food enthusiast who loved to play the violin.

Marguerite Miller with son Michael: Why?

UPI

But then the dream began to sour. Jeff suffered a nervous breakdown while away at college, and in 1981 he committed suicide by taking an overdose of aspirin in a Los Angeles clinic that specializes in the treatment of schizophrenia. It was a crushing blow to the religious close-knit family, but Mike seemed to suffer the most. The death of his older brother, says a friend of the family, "left a big void in Mike's life." He began to get into trouble—he has been convicted of numerous traffic violations since 1980, and was arrested for reckless driving last fall—moved back home and eventually underwent psychiatric treatment for depression.

Emotional Embrace: One night last week the Miller's dream turned to nightmare. Roy Miller, returning home late at night, saw his wife's bloody eyeglasses in the living room and called her name. When he received no response, Miller ran to a neighbor's home and called the police. Marguerite Miller's nude, battered body was found sprawled in the master bedroom; she had been killed by a blow to the head by a 17-inch wooden club that the police recovered from the home. Mike Miller, 20, apparently the last person to see his mother, later underwent questioning and made what Los Angeles County Sheriff's deputy Ward Finch called "a full and complete confession." After an emotional embrace with his distraught father, Mike Miller was taken into custody and booked for investigation of murder.

MAR 22 1983

THE WHITE HOUSE

WASHINGTON

March 22, 1983

131088 CU

MEMORANDUM FOR FRED F. FIELDING

FROM: MICHAEL A. McMANUS, JR. MOC for

SUBJECT: Economic Summit State Dinner

Please let me know if you would have a problem with the Philip Morris Company paying for the cost of the State Dinner, not including food, in Williamsburg during the 1983 Summit of Industrialized Nations. The contribution would include tents, electricity, flowers, entertainment, etc. for the Dinner. I would appreciate your thoughts.

To State

C. F.

SYSTEM II
90471

THE WHITE HOUSE

WASHINGTON

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PR007-01
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FG012
FG006-15

ACTION

April 13, 1983

MEMORANDUM FOR THE PRESIDENT

FROM: WILLIAM P. CLARK

SUBJECT: Give-and-Take Session and Overall Review of Summit Issues -- Thursday, April 14, 1983 -- 1:00 p.m., Cabinet Room

Issue

You are meeting with Brock, Regan, the Sherpa team, and Senior White House Staff to discuss the background of trade issues at the Summit and to review the overall preparations for the Summit before the next preparatory meeting.

Discussion

Bill Brock has sent you a concise background paper on trade issues (Tab I). He will engage you in a discussion of these issues and what you will be seeking to achieve in the trade/debt/finance area at the Summit. Allen Wallis will review the status of other issues -- economic policy and East-West issues -- and what reactions we are getting from other countries as we go into the second preparatory meeting this weekend at Williamsburg.

Recommendation

OK	No	
✓ RR	____	That you read the background paper at Tab I.

Attachment
Tab I - Background Paper from Brock

Prepared by:
Henry R. Nau

TAB I

THE UNITED STATES TRADE REPRESENTATIVE
WASHINGTON
20506

April 12, 1983

MEMORANDUM FOR THE PRESIDENT

FROM: WILLIAM E. BROCK

Expansion of Trade:

Expanded trade made possible by the removal of trade barriers through successive rounds of negotiations especially in manufactures (average tariffs down from over 50% to less than 5%) has been a major source of U.S. and global economic growth over the past 35 years. World trade increased from $155 billion in 1952 to $1.8 trillion today, an average growth of 8.2 percent per year. World GNP grew more slowly. Adjusted for inflation, since 1960, world trade in real terms grew 6.0 percent, while the growth in real production of goods averaged 4.4 percent.

System Under Stress:

Today's system is under stress due to economic recession, longer-term structural adjustment problems in basic industries such as textiles, steel, autos, and agriculture, and the growing difficulty of major developing countries to service their external debt. An increase in import restrictions now threatens to undermine our efforts to achieve global economic recovery. In 1982 world trade declined by 6 percent, our exports to developing countries declined by 7 percent (from $89 billion in 1981 to $82.7 billion in 1982). Our exports to Latin America, where debt is large and problems severe, declined by 22 percent.

New Restrictions:

Despite a continuing commitment by the leaders of most major developed countries to the ideal of an open trading system, most countries have found it necessary to restrict imports directly by quotas and escape clause actions or by manipulating non-tariff barriers, including domestic, industrial, tax and other policies. LDCs under the weight of their debt burdens have particularly increased import restrictions. Restrictions now cover a substantial portion of world trade in goods like textiles, autos, steel, television sets, video recorders, semiconductor chips, machine tools and footwear.

The most subtle restrictions take the form of more government intervention through subsidies, preferential regulatory treatment and other means to support industries. Our inability to curb these distortive practices through agreed international trading rules has helped create growing domestic frustration and tension that is fostering protectionist sentiment. Americans are growing increasingly resentful of practices like EC agricultural export subsidies, Japanese industrial targeting practices and widespread subsidization of exports by developing countries.

Consequences for Recovery:

New trade restrictions and increased domestic intervention by our major trading partners in their own economies is likely to slow world economic recovery. If current tensions with our OECD trading partners spill over, provoking further increases in protection, or if financial and trade problems lead to further increases in barriers to trade between developing and developed countries, the threat to world economic recovery could be extremely serious.

Cutback in U.S. Exports:

North/South trade problems are of particular concern. In recent years, our exports to developing countries grew the fastest, and now account for 39 percent of our exports (more than the EC and Japan combined). But last year in the wake of the debt problems our exports to key Latin American debtor countries declined (by 36 percent to Mexico, 10 percent to Brazil, and 40 percent to Argentina). Overall, the decline in U.S. exports to Latin America was $8.9 billion, which translated into a loss of over 200,000 American jobs. Simultaneously, developing countries exports have fallen because of the economic recession and of increasing trade barriers in developed countries. Developing debtor countries that must now devote large proportions of their foreign exchange earnings to service their debt (59 percent for Mexico, 67 percent for Brazil, 88 percent for Argentina), are finding it increasingly difficult to import necessities and to service their debt obligations.

In the short-term developing countries need financial help to sustain essential imports, such as that provided by the recently agreed increases in IMF resources. In the long run the only solution to the debt problem is increased capacity to export. Hence trade and finance are interrelated as the basic guarantees of world economic stability.

Challenge to the U.S.:

Our challenge now is to halt the trend toward more trade restrictions and to establish firm commitments to the dismantling of recent restrictions and other forms of government intervention as renewed economic growth takes hold. Unless the current trend is reversed, world economic recovery will be weak, and could be aborted altogether.

GATT Ministerial:

We made a major effort last fall, during the meeting of the GATT Trade Ministers, to reverse current negative trends and to achieve agreement on a new set of goals for the future. In particular, we proposed that Trade Ministers commit themselves to avoid new import restrictions and to roll back existing trade restrictions and distortions which were inconsistent with trade rules. We also proposed that the GATT begin to focus on new forms of government intervention that distort trade, particularly in areas with the greatest growth opportunities such as high technology trade and trade in services. We achieved some of our objectives, and we did not slip backwards; but the results fell short of what we sought and perhaps short of what we will need.

Views of Other Summit Countries

- Germany is likely to be the most supportive of our efforts. Kohl's support is critical. The recent realignment of European exchange rates may have given Kohl some leverage to secure strong EC support against protectionism.

- Britain is relatively supportive but somewhat passive. Thatcher is less inclined to push for free markets than we are.

- France (with Italy trailing along) is likely to strongly resist statements that would commit them to open their markets. They may emphasize the importance of the ongoing dialogue with the LDCs. Mitterand believes an open trading system is only possible in an environment of fixed exchange rates.

- Nakasone is supportive of freer trade but lacks credibility. The Japanese are feeling defensive and are likely to try to deflect EC and US criticisms regarding access to their market. Japan also has political problems at home that will make it difficult for them to accommodate LDC demands.

- Trudeau is likely to be helpful but unenthusiastic. Canada is hesitant about accepting more LDC exports given its own production and unemployment problems.

- The EC Commission does not seem to be in a liberalizing mood. It is slow to develop common positions and hesitant to change them.

Relationship of Growth, Trade and Debt:

One reason that the results of the GATT Ministerial meeting was disappointing is that the Trade Ministers' ability to keep markets open is strongly dependent on economic growth and international financial confidence. Similarly, economic recovery and successful handling of international financial problems are now strongly dependent on our ability to keep world markets open for expanded trade. Since overall responsibility for these policy areas comes together only at the top level of governments, the Summit has a key role to play in bringing the interrelationships into clearer focus, and establishing the basis for coordinated commitments in each of these areas.

Williamsburg Summit:

It would be unrealistic to expect the Summit to bridge many of the deepseated differences that prevented last fall's meeting of the GATT Trade Ministers from being more successful. But, the Summit can establish a clearer understanding of the interrelationships between international trade and other policy areas, and a greater degree of consensus that open trade, investment and financial policies must go hand in hand with macroeconomic policies aimed at non-inflationary growth. The Summit could also boost closer working relationships among trade, monetary and macroeconomic officials. We expect that such closer working relationships would help us persuade other countries to adopt more open trade policies.

BPB

~~CONFIDENTIAL~~

THE WHITE HOUSE

WASHINGTON

URGENT

SYSTEM II
90512

C. F.

13325955

FO006-06

~~CONFIDENTIAL~~

April 21, 1983

MEMORANDUM FOR THE WHITE HOUSE SUMMIT GROUP

SUBJECT: Give-and-Take Session with the President -- April 22, 1983, 2:00 P.M., Cabinet Room

Attached is the background paper sent to the President for the give-and-take session on Summit issues, April 22, 1983, at 2:00 P.M., Cabinet Room.

Bill

William P. Clark

Attachment
Tab A - Background Paper

cc: The Vice President
George Shultz
Donald Regan
Martin Feldstein
Edwin Meese
James Baker
Michael Deaver
Beryl Sprinkel
Allen Wallis
David Gergen
Edwin Harper
Craig Fuller
Richard Darman
Michael McManus
Charles Tyson
Henry Nau

DECLASSIFIED
Sec.3.4(b), E.O. 12958, as amended
BY dh 12/3/2017

~~CONFIDENTIAL~~
Declassify on: OADR

~~CONFIDENTIAL~~

TAB A

~~LIMITED OFFICIAL USE--ENTIRE TEXT~~

Debt and Finance

Background

In order to foster a favorable long-run climate for developing countries (LDCs) and for developed countries as well, LDCs accumulation of debt should not exceed a sustainable pace.

- Many LDCs need to undertake strong adjustment measures in order to reduce external imbalances.

- But foreign lending should not decline abruptly, as that would force a disruptive adjustment process and impose strain on the international financial and trading system.

- It is crucial that significant problems be dealt with quickly, in a multilateral context, in order to maintain confidence--both confidence of private lenders in the ability of borrowers to service their debt over the longer run, and public confidence in the private lending institutions which have significant exposure in these countries.

Private bank lending is the major element of financing for LDCs in the aggregate, but most of the borrowing is accounted for by the largest, more advanced LDCs.

- Our primary concerns are Mexico, Brazil and Argentina, all of whom have encountered difficulty in renewing maturing credits and obtaining net additional funds.

- Similar concerns have arisen over Eastern European countries (Poland, Romania and Yugoslavia), which are relatively more important for European countries' banks than for U.S. banks.

In addition, there are a number of acute debt problem cases in smaller countries, principally in Africa and other parts of Latin America, where official creditors as well as private creditors are involved in rescheduling exercises. (Official creditors are involved as well in the Eastern European countries mentioned, but have relatively smaller shares than the banks.)

Total private bank claims on non-OPEC LDCs amount to about $270 billion (mid-1982), but the rate of growth in 1982 and 1983 may be under 10 percent as contrasted with growth rates exceeding 20 percent in preceding years.

° The deceleration has been abrupt, reflecting a more or less normal increase in the first half of 1982 followed by no growth--and in some important cases such as Mexico an actual decrease in outstanding loans--in the third quarter.

° There was probably only modest net lending in the fourth quarter (data are not available).

° This deceleration both reflects a perceived decline of LDC creditworthiness and to some degree is the cause of the liquidity problems that have emerged.

Current U.S. Appproach

The U.S.G. has adopted a five part strategy aimed at both resolving the immediate debt servicing problems of key debtor countries and laying the basis for longer term restoration of stability.

° First and foremost is the need for LDCs with present and prospective liquidity problems to undertake prompt and effective adjustment.

° Generally, this adjustment will take place in the context of an IMF agreement, and thus another key element in the strategy is the availability of sufficient financing from the IMF, and other official lenders.

° A demonstrated will by governments to cooperate by providing in limited instances very short-term assistance while a country is formulating and implementing an adjustment program is also important.

° Because the scale of the problem precludes sole reliance on official lenders and because of the need to ensure burden sharing between banks and governments, if only to avoid charges of a "bail out", it is necessary to encourage banks to continue providing net new lending flows, albeit at a slower pace.

° Finally, it is crucial to have in place a set of economic policies in the major industrialized countries that will provide for sustainable economic growth. Adequate growth is needed to enable LDCs to adjust promptly and to counter the impetus to protectionist sentiment in developed countries which will be associated with that adjustment. But this growth should not be attained through excessively stimulative policies, or it will not last--and the resulting renewed global stagnation would bring even worse debt problems.

Current U.S. and International Efforts

The international debt situation is being reviewed within the U.S.G. under the auspices of the SIG-IEP.

- A study has been mandated by the President (NSSD-3), and the response is near completion.

- The debt problem and related matters have also been discussed in various international fora such as the Group of Ten.

- Legislation to authorize and appropriate funds for U.S. participation in the recently negotiated increase in IMF quotas and to appropriate funds for an expanded GAB was introduced in early March.

- The Administration is giving the legislation high priority, and it has been favorably reported by the Senate Foreign Relations Committee.

Department of the Treasury
April 19, 1983