Collection: Clark, William P.: Files

Folder Title: Trip to Europe, President's: London Economic Summit 06/07/1984-06/09/1984 (Binder) (2)

Box: 8

WITHDRAWAL SHEET

Ronald Reagan Library

Collection Name	CLARK, WILLIAM: Files	***Withdrawer*** LOJ 1/22/2005
File Folder	TRIP TO EUROPE, PRESIDENT'S: LONDON ECONOMIC SUMMIT 06/07/1984-06/09/1984 (BINDER) (2)	***FOIA*** 2000-147
Box Number	8	CLARK 141

ID	Doc Type	Document Description	No of Pages	Doc Date	Restrictions
3165	TABLE	TABLE OF CONTENTS FOR INDIVIDUAL ISSUE PAPERS	1	ND	B1
	R	***6/23/2006***			
3166	PAPER	...REFORM	1	ND	B1
	R	***6/23/2006***			
3167	PAPER		2	ND	B1
	R	***6/23/2006***			
3168	PAPER		2	ND	B1
	R	***6/23/2006***			
3169	PAPER		1	ND	B1
	R	***6/23/2006***			
3170	PAPER		2	ND	B1
	R	***6/23/2006***			

Freedom of Information Act - [5 U.S.C. 552(b)]

B-1 National security classified information [(b)(1) of the FOIA]
B-2 Release would disclose internal personnel rules and practices of an agency [(b)(2) of the FOIA]
B-3 Release would violate a Federal statute [(b)(3) of the FOIA]
B-4 Release would disclose trade secrets or confidential or financial information [(b)(4) of the FOIA]
B-6 Release would constitute a clearly unwarranted invasion of personal privacy [(b)(6) of the FOIA]
B-7 Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA]
B-8 Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA]
B-9 Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA]

C. Closed in accordance with restrictions contained in donor's deed of gift.

D. INDIVIDUAL ISSUE PAPERS

~~SECRET~~

INDIVIDUAL ISSUE PAPERS

Table of Contents

~~SECRET~~

1

U.S. BUDGET OUTLOOK

To a very large extent, the future budget outlook is shaped by decisions made in earlier years. Actions taken in the last three years have dramatically altered the budget outlook.

-- The runaway growth in domestic spending has been brought to a halt. Domestic spending was 4% of GNP in 1954, more than 10% in 1971, and 15% by 1981. In the current fiscal year, it is projected to decline to 14% of GNP, and by 1989 it is projected to drop to below 12%.

-- Defense spending, which reached dangerously low levels in the 1970's, is being restored to more adequate levels. In the last three years, national defense expenditures have been increased by about 25% in real terms, and further real increases are projected for the years ahead.

-- Tax burdens have been sharply reduced. Over the 1981-86 period, receipts have been reduced by nearly $500 billion from what they otherwise would have been.

The Administration's February budget proposed a balanced package of defense and non-defense spending cuts and tax reforms that would yield deficit reductions in the neighborhood of $100 billion over the next three years. As a share of GNP, the deficit under Administration policy is projected to decline steadily, from its peak of 6.1% in 1983 to 2.4% by 1989.

Table 1--Projected Budget Deficits

	1985	1986	1987	1988	1989
Current services (pre-policy) deficits	207	219	224	206	197
Proposed deficit reductions:					
Revenue increased	-10	-12	-14	-18	-23
Defense outlay reductions	-12	-11	-4	-5	-10
Non-defense program reductions	-4	-11	-14	-18	-23
Debt service effect of proposed changes	-2	-4	-7	-10	-12
Total proposed changes	-28	-38	-39	-50	-69
Administration policy deficits	179	181	185	156	129
Addendum: Deficit as a percent of GNP:					
Current services	5.3	5.2	4.8	4.1	3.7
Administration policy	4.6	4.2	4.0	3.1	2.4

In the President's State of the Union Message, he called for a bipartisan effort to reduce the unacceptably large deficits that would occur in the absence of policy actions. The response has been encouraging, with major deficit reduction proposals having been passed by both the Senate Budget Committee and the House.

The Senate Budget Committee proposal would reduce 1985-87 deficits by $141 billion through deeper defense cuts and steeper, more extensive tax reforms than proposed by the Administration. The Administration has supported this deficit reduction plan. For 1985 through 1987, this resolution calls for:

-- revenue increases of $46 billion, $11 billion more than in the President's budget;

-- defense cuts of $40 billion from the amount in the President's budget;

-- non-defense cuts of $37 billion, roughly the same level of cuts as in the President's budget; and

-- $18 billion in interest savings resulting from the lower deficits.

The House passed proposal would reduce deficits over the 1985-87 period by $182 billion, but contains smaller non-defense spending reductions than desired by the Administration and unacceptably large defense cuts. For 1985-87, the House resolution calls for:

-- revenue increases of $50 billion;

-- defense cuts of $96 billion below the President's budget;

-- non-defense cuts of only $15 billion; and

-- $22 billion in interest savings resulting from the lower deficits.

The Administration remains optimistic that an acceptable deficit reduction package can be agreed upon with the Congress this year that will be an important first step in reducing the large budget deficits projected for the future. It is important to note that such actions will represent only the beginning of a longer-term effort to bring the budget into balance.

2

MONETARY SYSTEM REFORM

Largely in response to pressure from French President Mitterrand, the Williamsburg Summit Declaration "...invited Ministers of Finance, in consultation with the Managing Director of the IMF, to define the conditions for improving the international monetary system and to consider the part which might, in due course, be played in this process by a high-level international monetary conference." The follow-up is taking place in the Group of Ten (G-10) and a brief status report will be prepared for the London Summit.

The G-10 consists of the Finance Ministers and Central Bank Governors of the ten largest industrial countries, plus Switzerland (which became the eleventh member this spring). Last fall, the G-10 began studying areas in which it might be possible to improve the functioning of the international monetary system. The four broad study areas are: 1) the functioning of the exchange rate system; 2) enhancing IMF surveillance; 3) international liquidity; 4) the role of the IMF.

The G-10 Deputies (Under Secretary level of Finance Ministries and Central Banks in the G-10 countries) met four times on this topic prior to the Summit; and G-10 Ministers reviewed the status of the exercise on May 19 and prepared a brief report to the Summit. No concrete results or decisions are expected for the Summit, and the British hosts have made it clear that they prefer to devote little time to this topic (a position with which we agree).

The US approach to the G-10 exercise has been to have a thorough, factual study of key issues, aimed at finding ways of making the present system work better. We have pointed out that most shortcomings of system performance over the last decade have been due to unsound and inconsistent national policies, and that the basic tools for better performance are already there if we use them properly. Thus, we have argued against a wholesale restructuring of the system, instead seeking practical ideas to improve national policies and cooperative arrangements -- particularly through a strengthening of IMF surveillance procedures and the multilateral surveillance process.

There is broad agreement among other Summit countries on this approach, although the French have not given up entirely on the idea of a monetary conference at some point, and in principle would still prefer fixed exchange rates. The Italians and EC would also push for more radical restructuring of the system, toward binding rules for exchange rate behavior and policy adjustment, if they thought there were a realistic chance of success. The French may try to link trade and monetary issues -- arguing that they cannot agree to action on trade liberalization without action in the monetary area.

3

CONFIDENTIAL

THE MULTILATERAL DEVELOPMENT BANKS (MDBs) AND IDA

A $9 billion replenishment (IDA VII) has been negotiated for the three-year period beginning July 1. Summit nations provide 77% of IDA VII, the U.S. at 25% being the largest. Other countries favored a $12 billion IDA VII. Canada, France, Italy and the UK support Bank efforts to raise additional resources. We do not object to others providing supplementary resources.

The U.S. share requires annual contributions of $750 million, a level we expect Congress to support. An IDA VII of $9 billion can be highly effective if focused on countries which lack access to alternative financing (e.g., Sub-Saharan Africa) and linked to appropriate economic policies.

Economic conditions are constraining IBRD lending, with many recipients unable to meet their share of project costs. Bank emphasis on loan conditionality, which we support, also is a constraining influence. Thus despite more flexible lending criteria -- under which almost 30% of this year's program is "fast disbursing" -- the Bank will not reach the $12 billion commitment level programmed for FY 1984.

While there was no specific timeframe for the IBRD's last General Capital Increase (GCI), it was generally viewed as funding the five-year lending program ending 6/30/86. A number of our Summit partners, who generally favor higher IBRD lending levels, appear willing to commit to a new GCI with some even willing to advance the timing of a GCI.

The U.S. has made no commitments on the timing or need for a new GCI. We want more satisfaction the Bank is getting maximum development impact out of existing resources before supporting any increased lending. Energy lending displacing private capital is an example of inefficient resource use.

Our Summit partners support an $8.4 billion Selective Capital Increase (SCI) to adjust members' shares. It will move Japan from fifth to second position in Bank voting power, and Japan has linked its IDA contribution to SCI approval. We are withholding support for the SCI until we have enough progress in negotiations with Japan (on internationalizing the yen and liberalizing Japanese capital markets) to ensure Congressional support for the SCI. Summit countries, other than Japan, generally share U.S. objectives but are unhappy that we are using World Bank negotiations as leverage.

CONFIDENTIAL
DECL: 5/7/89

Talking Points

(IDA)

-- legislation for U.S. participation in IDA VII was submitted to Congress on March 8. We believe the U.S. commitment will be approved.

-- $9 billion IDA VII can be highly effective <u>if</u>:

* concentrated on poorest and least creditworthy countries which lack alternative financing (e.g., Sub Saharan Africa), and

* linked to appropriate policies.

-- while IDA important, there are many other critical areas (e.g., trade and internal policies) which will help determine the rate of progress in the poorest countries.

-- more than a 25 percent U.S. share would not be equitable given the disproportional effort U.S. provides for global security and the openness of U.S. trading markets.

-- we have no objections if others wish to provide supplementary resources, along lines of FY 1984 special arrangements.

(IBRD)

-- IBRD role important, but existing lending program more than adequate.

* Bank is having difficulty developing viable projects and FY 1984 lending is likely to be more than 6 percent below the level initially programmed.

-- Bank has made commendable efforts on loan conditionality. Nevertheless, there is still room for the Bank to allocate resources more effectively.

-- energy lending which displaces private capital is key example of inefficient resource use.

-- we are also concerned by extent to which Bank has shifted its principal focus from project-oriented, long-term development.

-- it is premature even to consider a new GCI at this point.

(on a Selective Capital Increase)

-- Further discussions on U.S. participation in a SCI are required within the USG, including Congress. We are making every effort to expedite these discussions with a view toward being able to support fully a mutually agreeable arrangement.

-- We are aware that others have linked the IDA VII and SCI resolutions. However, we have not agreed to or acquiesced in this linkage and in fact urge that IDA VII go forward as soon as possible.

4

ENERGY MARKET AND OIL PRICES

The international energy supply picture has improved considerably since 1979 when the United States experienced its last supply shortage. Free World oil consumption, which continued to decline in 1983, is expected to increase slightly (by 1-3 percent) in 1984 as a result of economic recovery worldwide. A modest increase in energy demand should contribute to maintaining stable oil prices through the mid-1980's.

However, potentially destabilizing conditions in the Middle East, including in particular the Iran-Iraq war, could lead to a disruption in oil supplies and higher oil prices. Conversely, low prices may result if the Iran-Iraq war diminishes or if producers exceed quotas. These conditions require continued emphasis by the United States and its allies on efforts to avoid undue dependence on any single energy source and to reduce our vulnerability to the potentially severe impacts on our oil supply through disruptions.

We are working within the IEA structure on international policies that will enable member nations to allow markets to work and thereby to reduce vulnerability and enhance their energy security by developing alternative energy resources, increasing strategic stocks as the United States is doing, and increasing indigenous energy production, assuring the continued availability of adequate supplies of energy at economic prices. Specific IEA efforts include, but are not limited to:

- coordinated stock drawdown policies for oil emergencies, bearing in mind the need for flexibility of decision-making at the time of a disruption;
- reducing or eliminating barriers to free trade in energy;
- urging European allies to work to increase indigenous gas production where possible such as the North Sea; and
- diversifying oil and gas supply sources when and where it is economically efficient to do so.

Over the long term, the outlook becomes more speculative. Such uncertainty underscores the necessity and determination of the industrial nations to allow market forces to work. In response to changing prices, market forces and efforts to reduce dependence on any single energy source are promoting increased production, use, and trade in energy sources such as coal and nuclear power as well as increased utilization and development of renewable energy resources. For example, part of the downturn in coal demand that has occurred during the past 1-2 years might be offset in the future through examination of possibilities to displace oil and gas by coal-generated electricity. In addition, current international cooperation on radioactive waste management may enhance the future role of nuclear power in our energy mix.

5

~~CONFIDENTIAL~~

NORTH-SOUTH ECONOMIC RELATIONS

We do not believe that there should be a separate agenda item on North-South economic relations. Considering the heterogeneous nature of the two groups, such an agenda item would only lead to confrontation. We have worked hard to remove North-South issues as a separate agenda item and were successful in doing so at Williamsburg. We would prefer to see the developing countries fully integrated into discussions on specific subjects.

On the question of Global Negotiations, called for in UNGA Resolution 34/138, we have expressed our willingness to participate on the basis of the four understandings you spelled out at Cancun, and specific amendments to the Group of 77 draft resolution on GNs agreed to at the 1982 Versailles Summit, which, inter alia, specify that the independence of the specialized agencies such as the IMF, IBRD, and GATT is guaranteed. Up to now the G-77 has refused to accept our compromise approach to the launching of GNs. In the unlikely event they do accept, we might still refuse to participate on the grounds that our Versailles offer was not necessarily open indefinitely. However, to maintain Western unity, we do not want to make this known unless events force the issue.

During the last six months the current Chairman in New York of the G-77, the Mexican UN Permanent Representative Ambassador Munoz Ledo, has been actively promoting the idea of a two-phased approach to GNs in informal discussions between selected developed and developing countries. Munoz Ledo's efforts have not been endorsed by the G-77. The U.S. remains skeptical on the prospects for progress but continues to stand by the Versailles text.

The most recent example of the limits of the present system of North-South discussions was the Sixth United Nations Conference on Trade and Development (UNCTAD VI) held in Belgrade in 1983. It highlighted the serious substantive differences between the North and South as well as the deterioration of the system itself. The U.S., therefore, decided to undertake an initiative to improve the process with initial emphasis on UNCTAD, a major focus of North-South economic discussion. The thrust of the U.S. approach is that the process itself must be improved before there can be progress on substance. Our OECD partners argue that progress on substance must occur simultaneously. The G-77 is well aware of our initiative and has thus far demonstrated cautious approval. The U.S. initiative is a good faith effort to improve a system that we believe can work to the benefit of both North and South. If it fails, we will be forced to carefully review our policy towards both the process of North-South dialogue and towards UNCTAD.

~~CONFIDENTIAL~~
~~DECL: OADR~~

DECLASSIFIED
NLS F00-147 #3168
BY NDI NARA, DATE 8/23/06

Talking Points (if raised)

-- We oppose the inclusion of a separate agenda item on North-South relations.

-- Considering the heterogeneous nature of the two groups, such a broad item will likely lead to confrontation.

-- Rather, the countries of the "South" should be fully integrated into the discussions of the various issues on the international economic agenda.

-- We remain skeptical on the value of Global Negotiations and are not prepared to change conditions laid down at Versailles.

-- The United States has no comment on the Munoz Ledo text on the launching of GNs since it has not received the endorsement of the G-77.

-- The United States remains committed to the view that the process of multilateral economic cooperation for development can work and we are committed to making it work.

-- Progress is possible only within an environment where the emphasis is on achieving practical solutions to real problems.

-- In order to improve the process, the United States has undertaken an initiative in UNCTAD, a major forum for the North-South dialogue, to improve the functioning of that organization.

-- The U.S. has no intention of withdrawing from UNCTAD or indeed from the process of multilateral discussion of economic issues.

6

CONFIDENTIAL

VERSAILLES TECHNOLOGY COOPERATION PROGRAM

Almost two years ago, the French proposed an initiative for the Summit that would focus on technology as a primary means of solving Western economic ills. This initiative spawned the formation of the Summit Working Group on Technology, Growth and Employment. During an intensive process preceding the Williamsburg Summit last year, we succeeded in directing the French initiative toward a product supportive of U.S. interests. In particular, the final report supported U.S. positions on cooperating in longer-term technology development, lowering trade barriers in the GATT and included a useful cautionary note on avoiding transfer of militarily sensitive technology to the Soviet Bloc. The report provided a basis for supporting international cooperation and shared funding on projects of strong interest to the U.S. It recommended 18 areas for international cooperation. Five of these were U.S. proposals for which the U.S. is a lead or co-lead; in addition the U.S. is a co-lead in a 6th project.

Over the past year, work under most of the cooperative projects has gotten underway. In addition, the Working Group has met several times and produced a report for the London Economic Summit. In keeping with the charge from the Williamsburg Summit to report progress at the next meeting, this report provides information on the individual progress in each of the 18 project areas. It also provides a follow-on to the first Working Group Report by setting out the role of new technologies in stimulating economic growth, identifying some of the obstacles to the introduction of new technologies and raising the issue of technology and the environment.

With respect to progress in the 18 project areas, the U.S. has continued its leadership role in the six projects of primary interest and has been an active participant in several other project areas. In almost all project areas, progress has been made in at least one of the following respects: (1) establishment of informal international networks between research institutes in specific science and technology fields; (2) identification and initiation of specific collaborative research activities; and (3) involvement of countries outside the Economic Summit Group and relevant international science and technology organizations.

Progress in some of the project areas far exceeds expectations. In other areas, assessments on utility cannot yet be made. By this time next year, we expect to be able to make specific recommendations on projects deserving continued support within the Summit context, projects better moved into other international fora, projects for elimination, and possibly new areas for consideration.

CONFIDENTIAL

7

~~CONFIDENTIAL~~

AUSTRALIAN PARTICIPATION IN THE SUMMIT

Australian Prime Minister Bob Hawke, like his predecessor Malcolm Fraser, has asked to be included in the Economic Summit. Hawke raised the question with the Secretary by telephone in February and with Under Secretary Wallis during the latter's visit to Canberra in March. Hawke also raised the matter with Mrs. Thatcher, since the UK is host this year, but was turned down with the argument that if Australia were admitted it would be impossible to hold the line with others. Mr. Wallis told Hawke that a number of the Summit countries -- particularly the Pacific and Commonwealth countries (the U.S., Japan, Canada and the UK) -- would be interested in Australian participation if Australia were to be the only added participant, but that the other Summit participants are much less enthusiastic. Mr. Wallis noted that, based on personal conversation, President Reagan would be favorably inclined, if practical, toward Australian participation. In his February conversation with Hawke the Secretary said he would raise the question at the London Summit.

In view of the relatively positive response we have given to Hawke regarding Summit participation, we should be consistent at the Summit. That is, if we take a negative position on Australia with the Summit partners, our change of stance would inevitably get back to Hawke and would do great harm to our bilateral relationship.

Beyond these considerations, Australia would be a like-minded and supportive ally on many issues we face at the Summit vis-a-vis our EC partners and Japan.

The main argument against Australian participation is that admission of Australia would stimulate pressure for other participation; the Summit is already large enough. It was created because larger, more inclusive bodies did not provide a usable forum for discussion at the highest level. Exclusivity and effectiveness may be linked.

Australia ranks next after the Summit seven in terms of GDP of OECD members, except for Spain whose interests, PM Hawke argues, are adequately represented by EC Summit participants. (It is not certain Spain would accept this argument even if it were a member of the EC.)

~~CONFIDENTIAL~~
~~DECL: OADR~~

Talking Points

-- Australian PM Hawke has expressed to us and others his strong interest in Australian participation in future summits.

-- Australian participation would provide a much-needed expansion of the Asia/Pacific dimension of the Summit.

-- Australia's resource base is of considerable importance to the global economy.

-- Australia provides an important and positive influence in various regional and global councils.

-- There can be no questioning of Australia's commitment and important contributions to the Western democratic alliance system.

-- These arguments in favor of participation are balanced by concern about undue expansion of the Summit.

-- Serious consideration should be given to Australian participation; we will abide by a consensus on the issue.

E. SELECTED ECONOMIC STATISTICS

Comparative Economic Charts and Commentary on Summit Countries

1. Real GNP/GDP Growth Rates
2. U.S. Recovery: Effects on Summit Country Growth Rates
3. Consumer Price Increases
4. Unemployment Rates
5. Trade Balances (Billions of U.S. Dollars)
6. Trade Balances as Percent of GNP/GDP
7. Current Account Balances (Billions of U.S. Dollars)
8. Current Account Balances as Percent of GNP/GDP
9. Government Deficit as Share of GNP/GDP
10. General Government Expenditures (as percent of GNP/GDP)
11. Average Short-Term Nominal Interest Rates
12. Exchange Rate Changes: U.S. Dollar vs. Other Currencies

May 8, 1984

Real GNP/GDP Growth Rates
(year-over-year)

	1981	1982	1983	1984
U.S.	2.6	-1.9	3.3	5.3
U.K.	-1.9	1.4	2.2	2.5
France	0.1	2.0	0.2	0.3
Germany	-0.2	-1.1	1.3	2.9
Japan	3.9	3.3	3.0	4.7
Canada	3.4	-4.4	3.0	4.6
Italy	0.1	-0.3	-1.4	2.5

-- All Summit countries (except France and Italy) established recovery in 1983. Growth should strengthen in 1984.

-- UK, Germany strongest in Europe last year. Even better performance in 1984 should pull other European countries along.

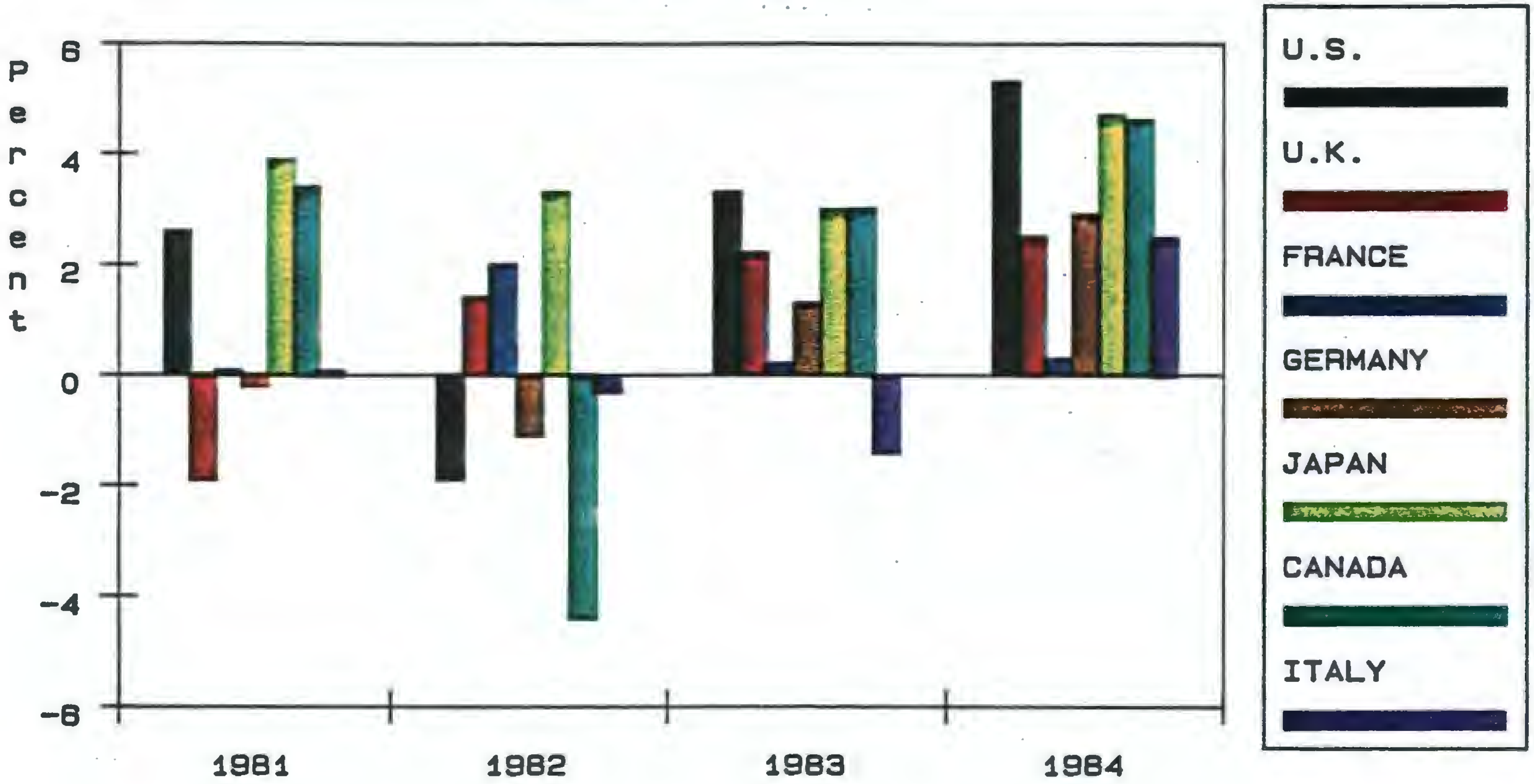
-- UK recovery should strengthen due to investment measures introduced in their recent budget.

-- Italy began upturn late last year. Will do much better in 1984.

-- France still adjusting. Recovery not expected to begin until second half of this year.

Real GNP/GDP Growth Rates

(year-over-year)



Forecast

U.S. Recovery: Effects on Summit Country Growth

-- Charts separate foreign Summit country 1983 (4th/4th) growth rates into two parts:

  °° part due to U.S. recovery impact

  °° part due to other factors

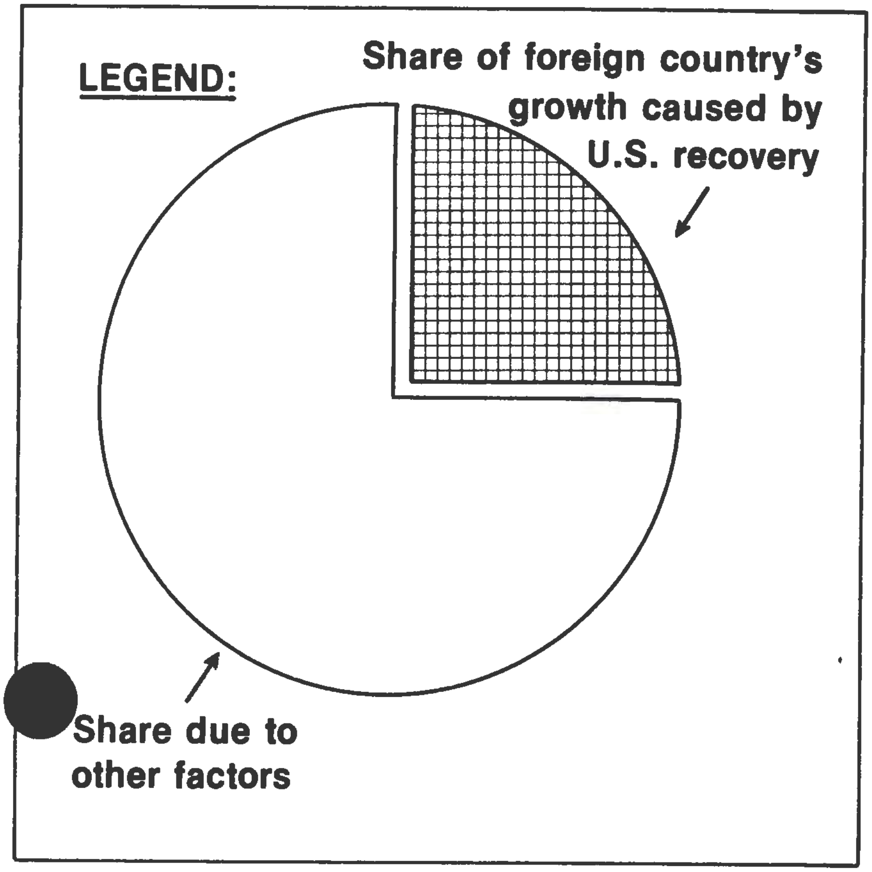
-- Calculations based on OECD Secretariat estimates of economic links among industrial countries.

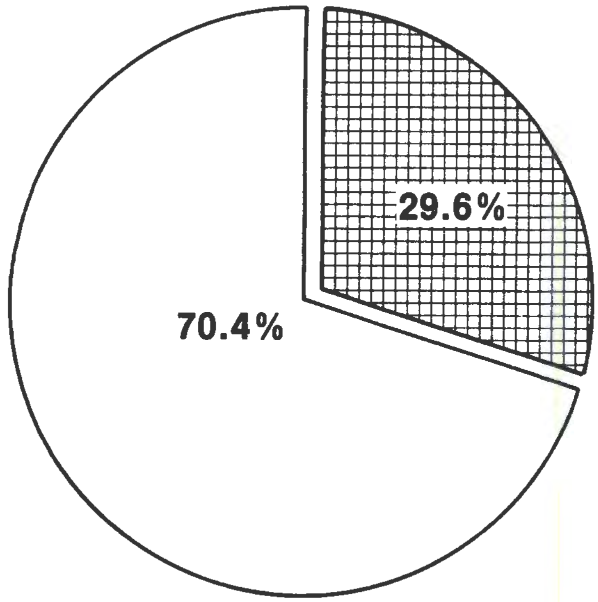
-- Shows direct and indirect impact of U.S. growth. For example, U.S. growth leads to higher imports from Canada; Canada grows faster and imports more from Japan, so Japan grows faster; all caused by U.S. growth.

-- Estimates rough, but give idea of importance of U.S. recovery for recovery abroad.

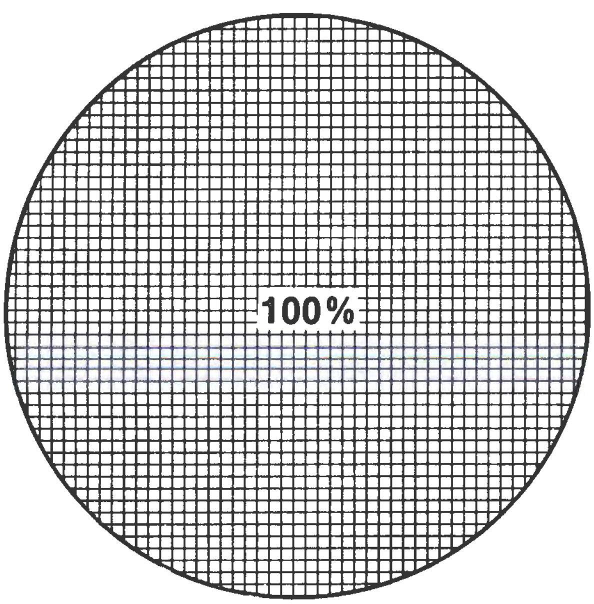
U.S. Recovery Effects on Summit Country Growth

(1983: 4th/4th rates)

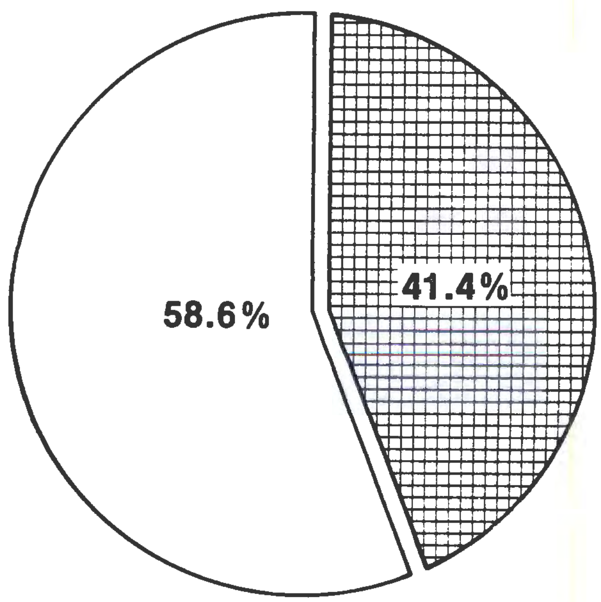




U.K.: Real Growth 2.7%
(Domestic/U.S. Share)



France: Real Growth 0.5%
(Domestic/U.S. Share)
negative growth without U.S. recovery



Germany: Real Growth 2.9%
(Domestic/U.S. Share)

U.S. Recovery: Effects on Summit Country Growth

-- Charts separate foreign Summit country 1983 (4th/4th) growth rates into two parts:

  °° part due to U.S. recovery impact

  °° part due to other factors

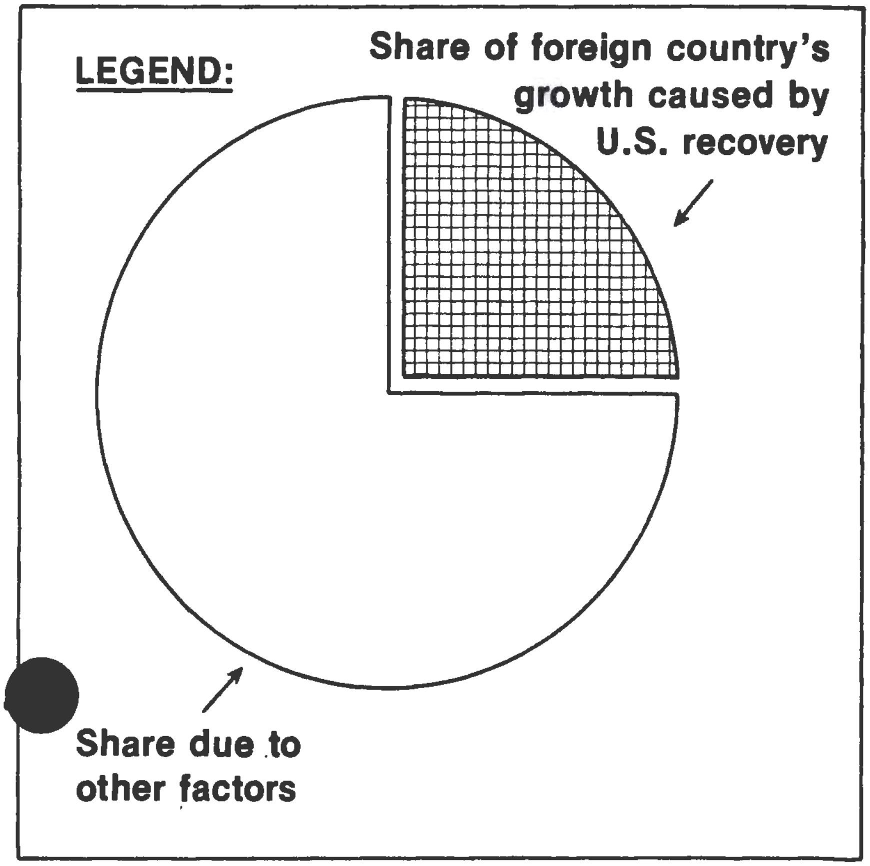
-- Calculations based on OECD Secretariat estimates of economic links among industrial countries.

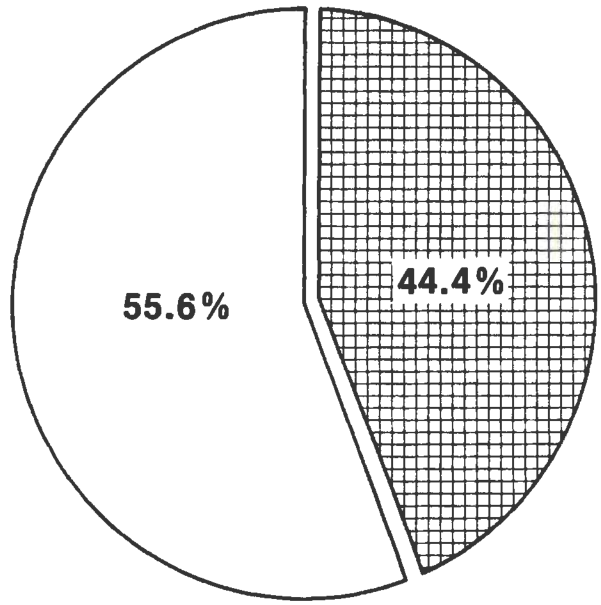
-- Shows direct and indirect impact of U.S. growth. For example, U.S. growth leads to higher imports from Canada; Canada grows faster and imports more from Japan, so Japan grows faster; all caused by U.S. growth.

-- Estimates rough, but give idea of importance of U.S. recovery for recovery abroad.

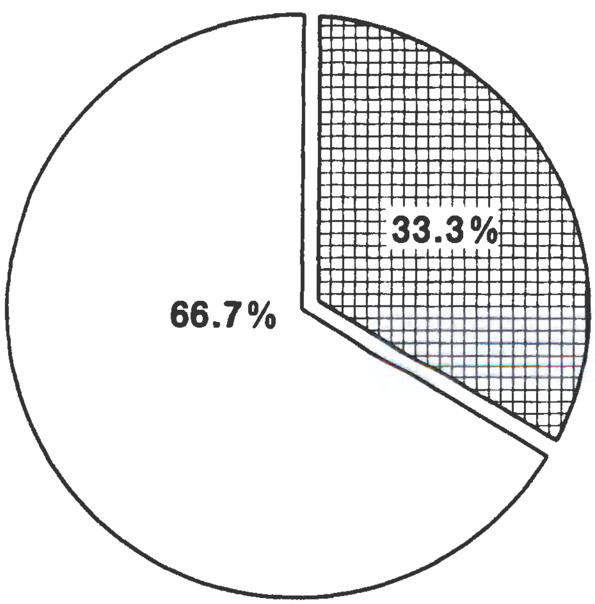
U.S. Recovery Effects on Summit Country Growth

(1983: 4th/4th rates)

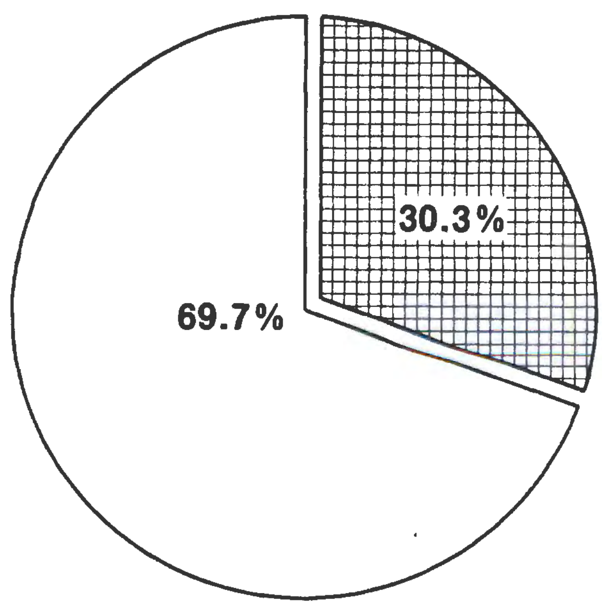




Japan: Real Growth 3.6%
(Domestic/U.S. Share)



Italy: Real Growth 1.2%
(Domestic/U.S. Share)



Canada: Real Growth 6.6%
(Domestic/U.S. Share)

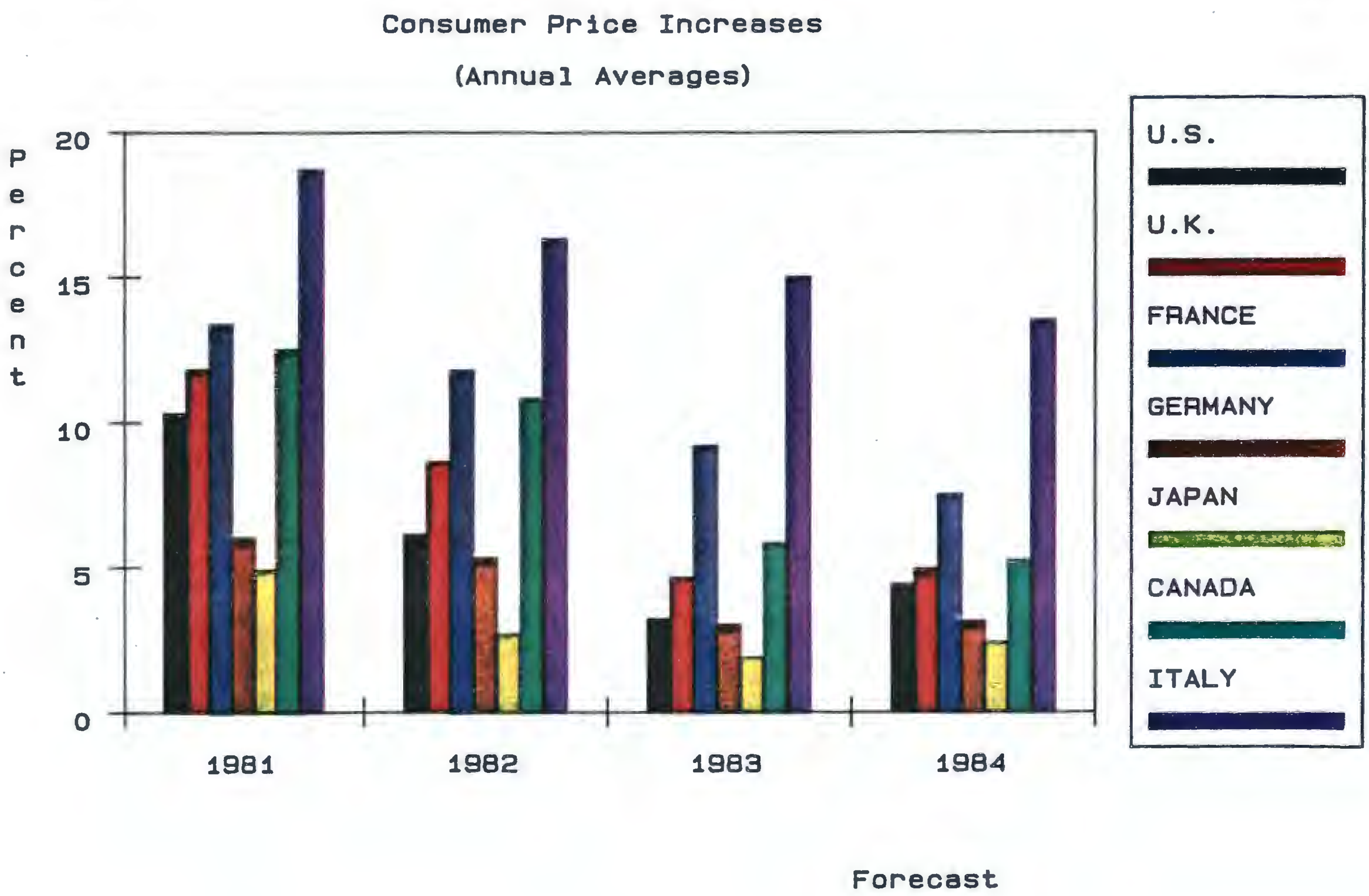
Consumer Price Increases
(Annual Averages)

	1981	1982	1983	1984
U.S.	10.3	6.1	3.2	4.4
U.K.	11.8	8.6	4.6	4.9
France	13.4	11.8	9.2	7.5
Germany	6.0	5.3	3.0	3.1
Japan	4.9	2.7	1.9	2.4
Canada	12.5	10.8	5.8	5.2
Italy	18.7	16.3	15.0	13.5

-- All (except France and Italy) have reduced inflation to generally low rates. Inflation now back to pre-OPEC (1972) levels.

-- Both France and Italy stand out, with considerably less progress made in reducing inflation rates. Some improvement expected in 1984, but will still be large difference between inflation rates in France and Italy and those in other Summit countries.

-- This year, high growth and low inflation is expected for the U.S., UK, Germany and Japan. France will have rising growth and declining inflation, while Italy will have solid growth and still high inflation.


Consumer Price Increases
(Annual Averages)
Percent
0
5
10
15
20
1981
1982
1983
1984
U.S.
U.K.
FRANCE
GERMANY
JAPAN
CANADA
ITALY
Forecast

Unemployment Rates
(Percent of Civilian Labor Force)
(All rates adjusted to match U.S. definition of unemployment)

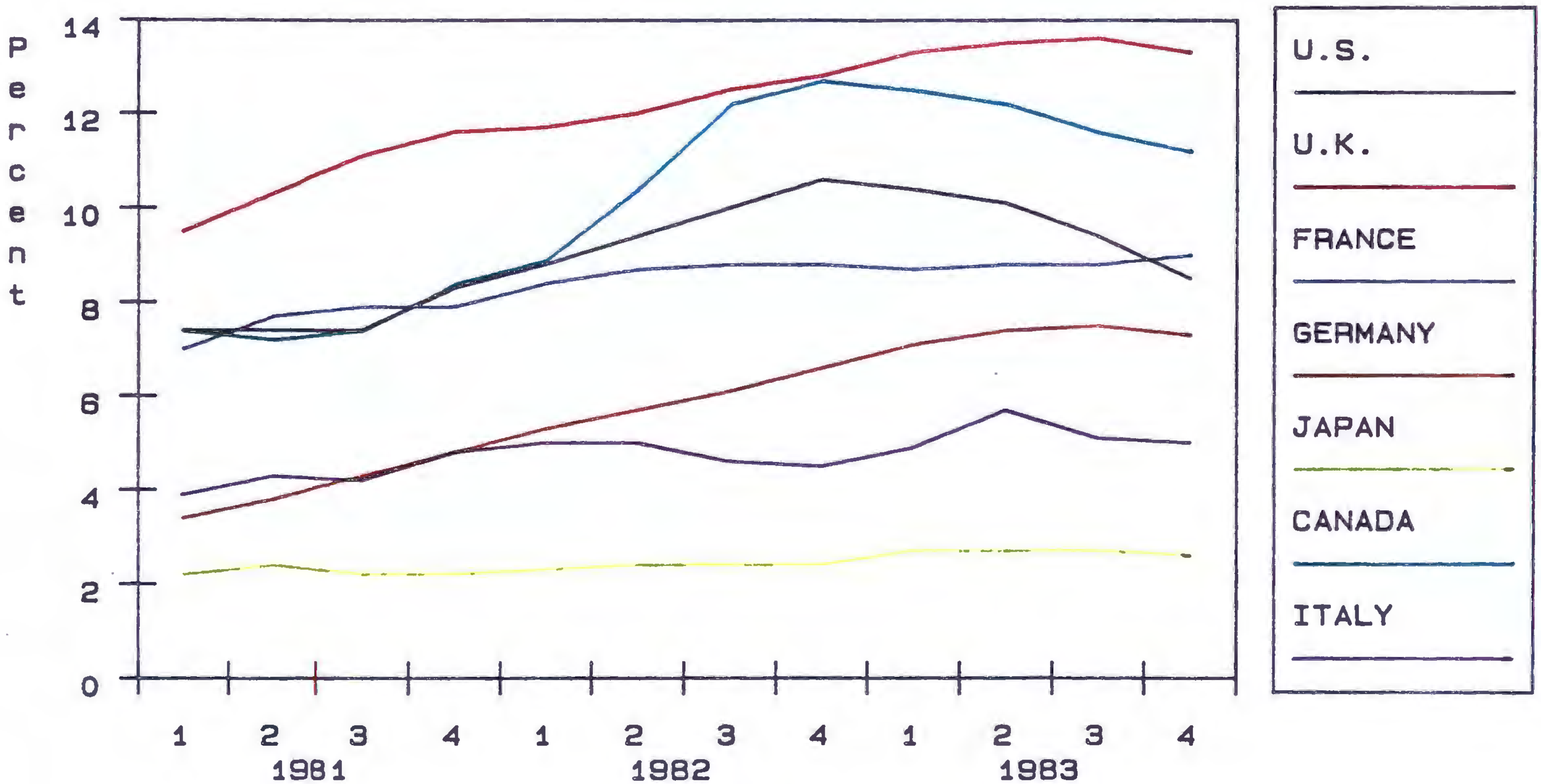
	U.S.	U.K.	France	Germany	Japan	Canada	Italy
1981							
Q1	7.4	9.5	7.0	3.4	2.2	7.4	3.9
Q2	7.4	10.3	7.7	3.8	2.4	7.2	4.3
Q3	7.4	11.1	7.9	4.3	2.2	7.4	4.2
Q4	8.3	11.6	7.9	4.8	2.2	8.4	4.8
1982							
Q1	8.8	11.7	8.4	5.3	2.3	8.9	5.0
Q2	9.4	12.0	8.7	5.7	2.4	10.4	5.0
Q3	10.0	12.5	8.8	6.1	2.4	12.2	4.6
Q4	10.6	12.8	8.8	6.6	2.4	12.7	4.5
1983							
Q1	10.4	13.3	8.7	7.1	2.7	12.5	4.9
Q2	10.1	13.5	8.8	7.4	2.7	12.2	5.7
Q3	9.4	13.6	8.8	7.5	2.7	11.6	5.1
Q4	8.5	13.3	9.0	7.3	2.6	11.2	5.0

-- U.S. rate has fallen sharply since late 1982, and latest data show further decline to 7.8% in April 1984. Canadian rate has fallen moderately. All others have shown no change, or have risen.

-- U.K. rate continues to be highest among Summit countries, while Japanese rate remains lowest.

UNEMPLOYMENT RATES*

(Percent of Civilian Labor Force)



*Quarterly Data

Average of monthly rates; U.S. concept

Trade Balances
(Billions of U.S. Dollars)

	1981	1982	1983	1984
U.S.	-28.1	-36.4	-60.6	-105.0
U.K.	6.5	3.5	-0.8	-4.6
France	-10.1	-15.5	-7.5	-1.9
Germany	16.6	25.2	16.4	20.8
Japan	20.0	18.1	31.6	39.7
Canada	6.2	14.8	14.6	14.4
Italy	-10.6	-7.9	-1.8	-3.6

-- Rise in U.S. trade account deficit is most significant development over past several years; expected to reach $105 billion in 1984.

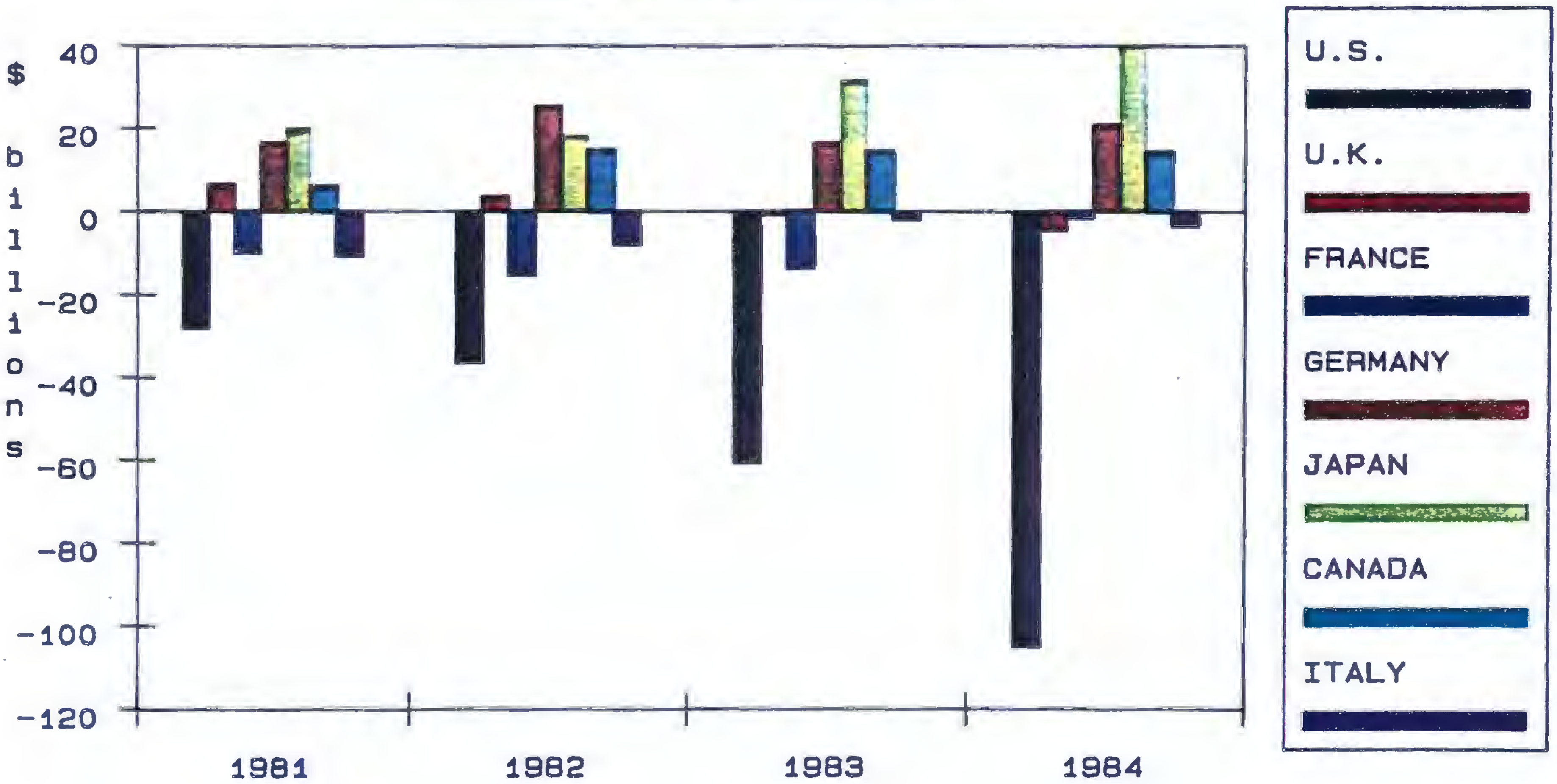
-- Reflects strong U.S. recovery ahead of others, decline in U.S. exports to Latin American countries with debt problems, and higher dollar.

-- Sharp reduction in French deficit as Mitterrand government adjustment measures reduce growth, leading to lower imports.

-- U.K. trade balance turned negative in 1983, following three years of declining surpluses. Trend reflects lower oil prices, and problems in UK competitiveness; likely to continue in 1984.

Trade Balances

(Billions of U.S. Dollars)



Forecast

Trade Balances as Percent of GNP/GDP

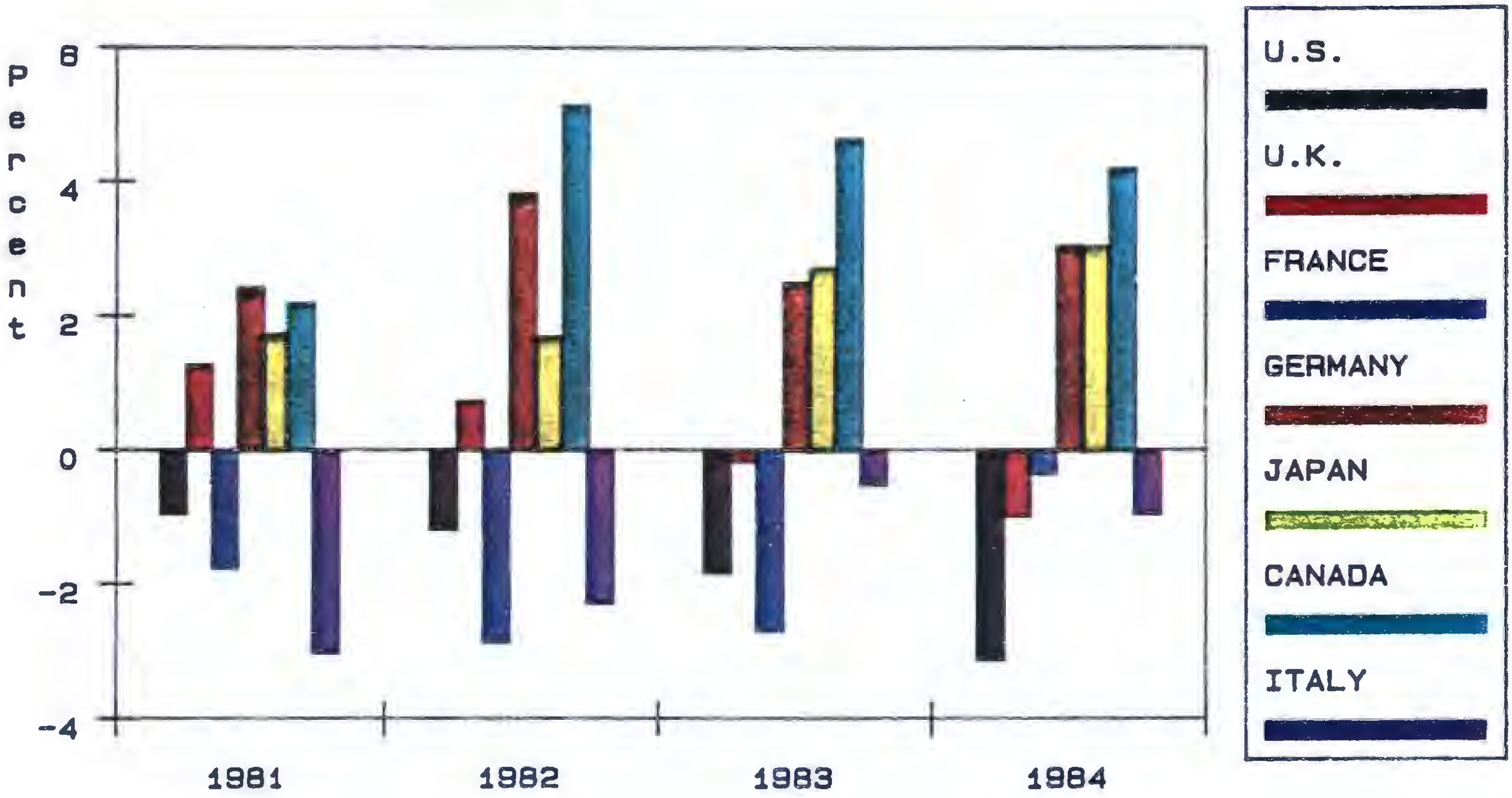
	1981	1982	1983	1984
U.S.	-1.0	-1.2	-1.8	-3.1
U.K.	1.3	0.7	-0.2	-1.0
France	-1.8	-2.9	-2.7	-0.4
Germany	2.4	3.8	2.5	3.1
Japan	1.7	1.7	2.7	3.1
Canada	2.2	5.1	4.6	4.2
Italy	-3.0	-2.3	-0.5	-1.0

-- This graph puts trade balances in perspective by showing them in terms of size of economies.

-- 1984 U.S. trade deficit, expected to reach $105 billion, or 3.1% of GNP, is about the same as Italy's deficit in 1981 or France's deficit in 1982.

-- Merchandise trade balances do not take account of services receipts and payments (e.g., dividends, interest, travel), on which U.S. has large net surplus position.

Trade Balances as Percent of GNP/GDP



Forecast

Current Account Balances
(Billions of U.S. Dollars)

	1981	1982	1983	1984
U.S.	4.6	-11.2	-40.8	-80.0
U.K.	13.2	9.8	3.7	0.6
France	-4.7	-12.0	-4.2	-0.5
Germany	-6.5	3.5	4.0	5.0
Japan	4.8	6.9	20.8	27.9
Canada	-4.8	2.4	1.3	0.0
Italy	-8.1	-5.5	0.5	-0.6

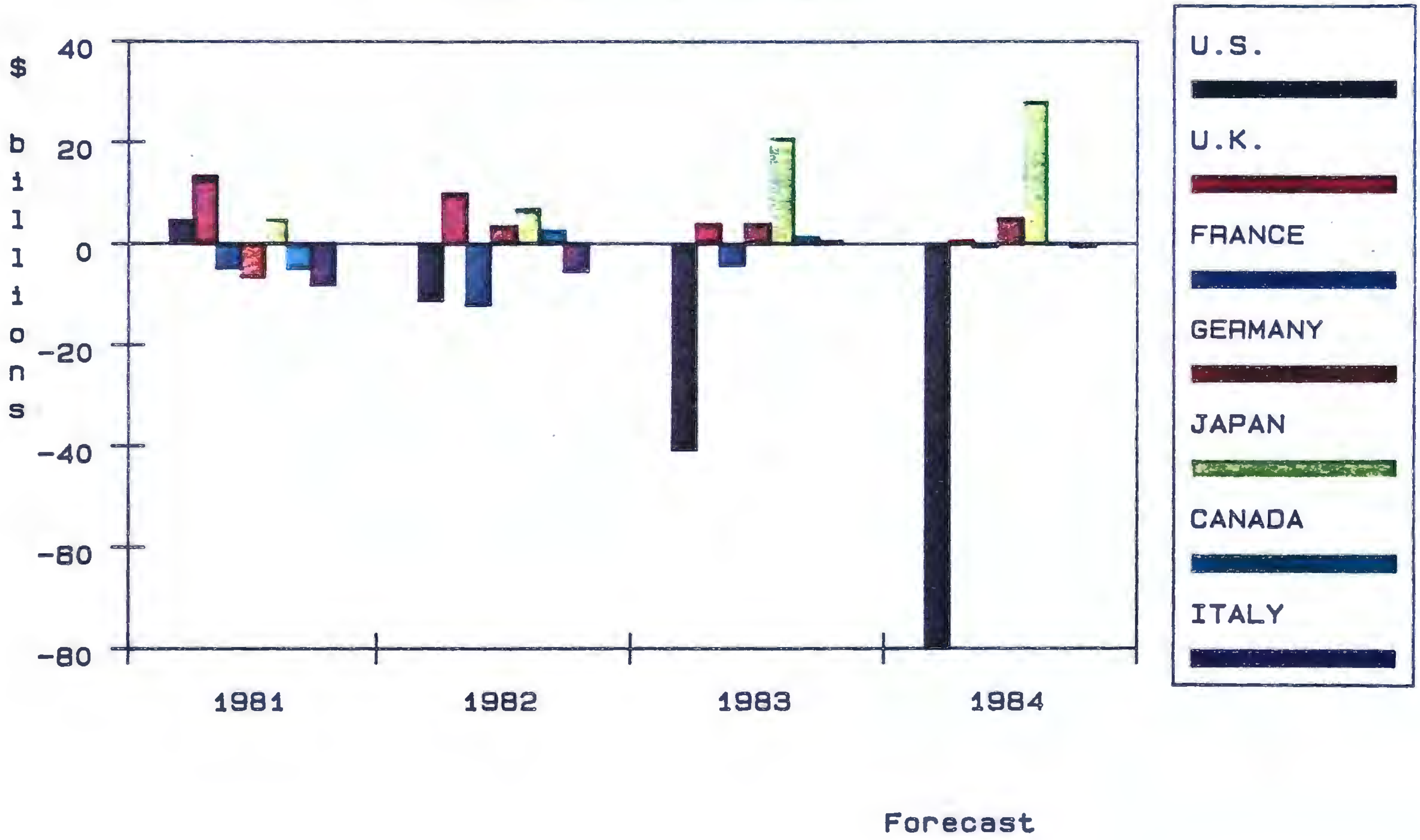
-- Major development is large rise in U.S. current account deficit, which is likely to reach $80 billion this year.

-- Rise in U.S. deficit reflects U.S. recovery ahead of the pack, weak U.S. exports to adjusting LDCs, and effects of earlier appreciation of the dollar.

-- U.S. current account deficits helping economic recovery and adjustment abroad. Last year, U.S. imports from non-OPEC LDCs rose by $9.4 billion; imports from industrial countries up $11 billion.

Current Account Balances

(Billions of U.S. Dollars)



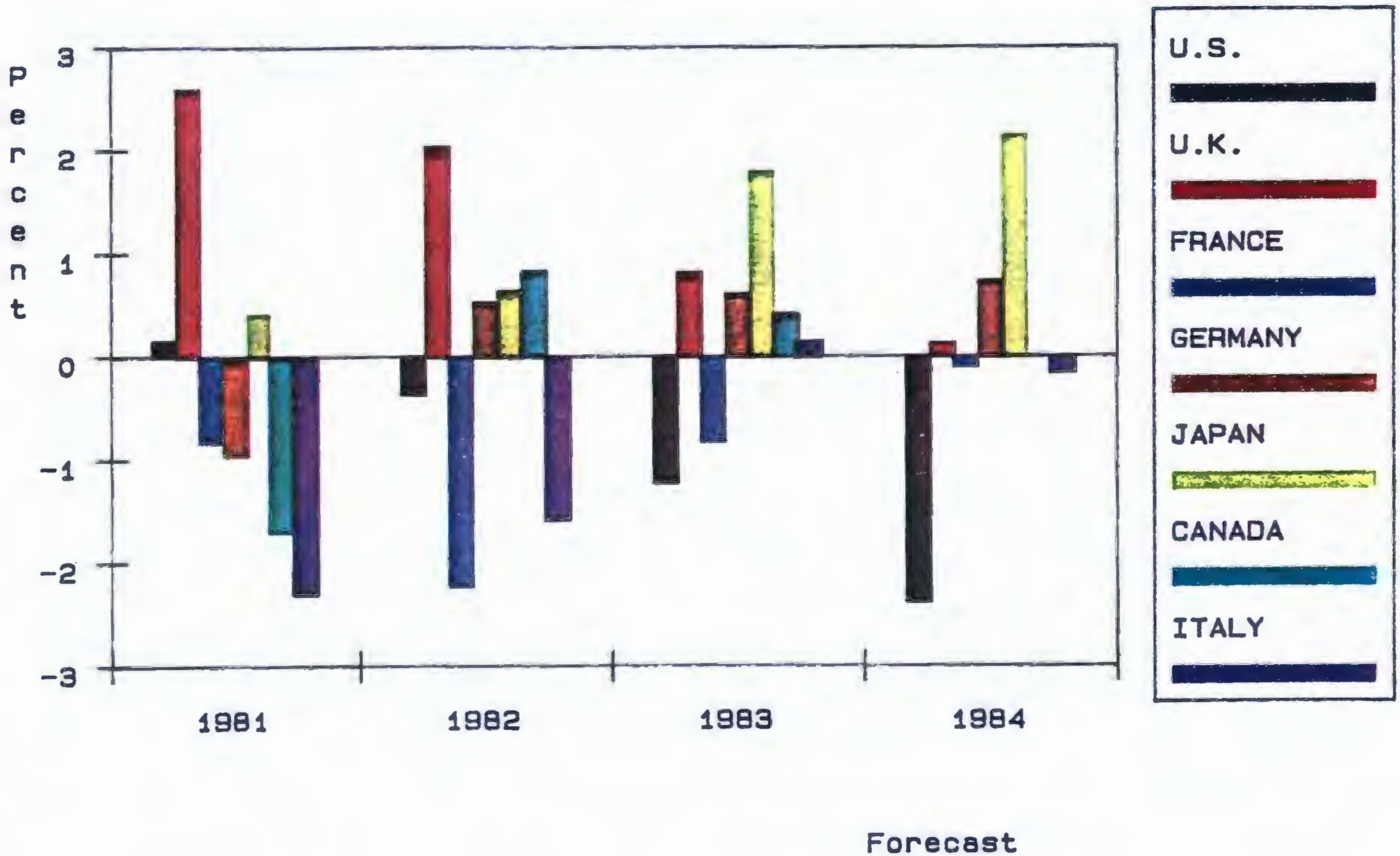
Current Account Balances as Percent of GNP/GDP

	1981	1982	1983	1984
U.S.	0.2	-0.4	-1.2	-2.4
U.K.	2.6	2.0	0.8	0.1
France	-0.8	-2.2	-0.8	-0.1
Germany	-0.9	0.5	0.6	0.7
Japan	0.4	0.6	1.8	2.1
Cananda	-1.7	0.8	0.4	0.0
Italy	-2.3	-1.6	0.1	-0.2

-- This graph puts current account balances in perspective by showing them in terms of size of economies.

-- U.S. current account deficit (projected at 2.4% of GNP in 1984) not out of line with what other countries have experienced in recent years, e.g., Italy in 1981, and France in 1982.

Current Account Balances as Percent of GNP/GDP



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

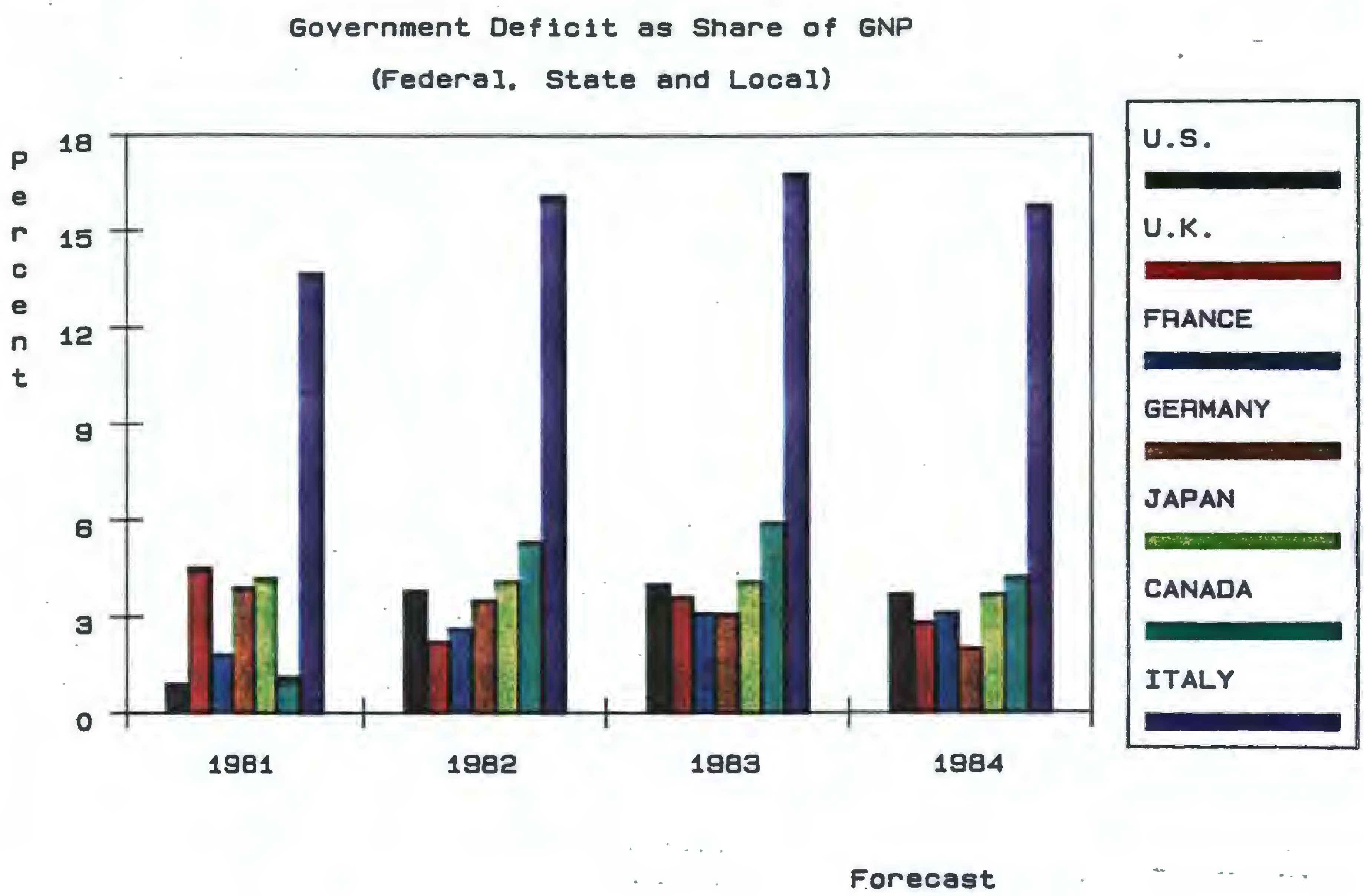
	1981	1982	1983	1984
U.S.	0.9	3.8	4.0	3.7
U.K.	4.5	2.2	3.6	2.8
France	1.8	2.6	3.1	3.1
Germany	3.9	3.5	3.1	2.0
Japan	4.2	4.1	4.1	3.7
Canada	1.1	5.3	5.9	4.2
Italy	13.7	16.1	16.8	15.8

-- All (except Canada and Italy) kept deficits between 3-4% GNP in 1983.

-- Forecasts show deficits as percent of GNP falling in all countries except France.

-- Italy continues to run largest deficit as share of GNP among Summit countries, reaching 16.8% in 1983.

-- Canada has experienced worst deterioration in the last few years, with deficit rising from just over 1% in 1981 to 6% in 1983, but expected to improve to 4% in 1984.



Government Deficit as Share of GNP
(Federal, State and Local)
Percent
18
15
12
9
6
3
0
1981
1982
1983
1984
U.S.
U.K.
FRANCE
GERMANY
JAPAN
CANADA
ITALY
Forecast

General Government Expenditures
(as percent of GNP/GDP)

	1981	1982	1983
U.S.	33.3	35.4	35.4
U.K.	45.4	44.2	45.1
France	50.7	50.8	52.8
Germany	49.2	49.2	47.9
Japan	33.4	34.5	35.6
Canada	39.3	45.5	46.2
Italy	51.4	53.6	56.0

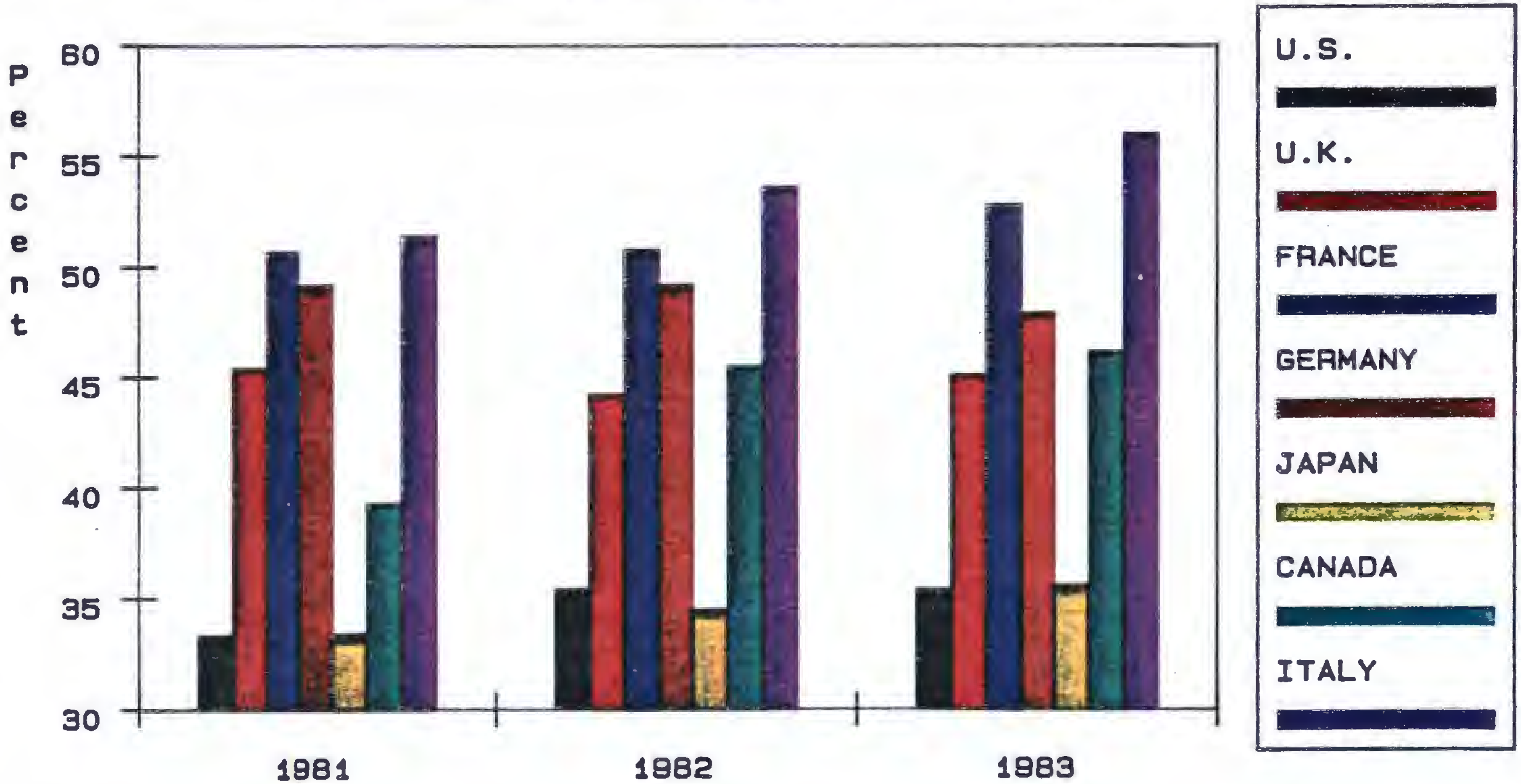
-- U.S. had lowest ratio of government expenditures to GNP (35.4%) in 1983, with Japan slightly higher (35.6%).

-- Government spending accounts for more than half of French and Italian GNP -- highest share of all Summit countries.

-- Over two years between 1981 and 1983 sharp rise in government share in Canada and Italy.

Government Expenditures as Share of GNP/GDP

(Total Federal, State, and Local Government)



Average Short-Term Nominal Interest Rates

	January:			
	1981	1982	1983	1984
U.S.	16.7	13.4	8.4	9.5
U.K.	14.3	15.1	11.2	9.4
France	11.4	15.0	12.5	12.2
Germany	9.4	10.4	5.8	6.1
Japan	8.9	6.6	6.7	6.0
Canada	16.8	14.9	9.8	9.9
Italy	17.4	21.4	19.0	17.8

-- In most countries rates have fallen dramatically from 1981 levels.

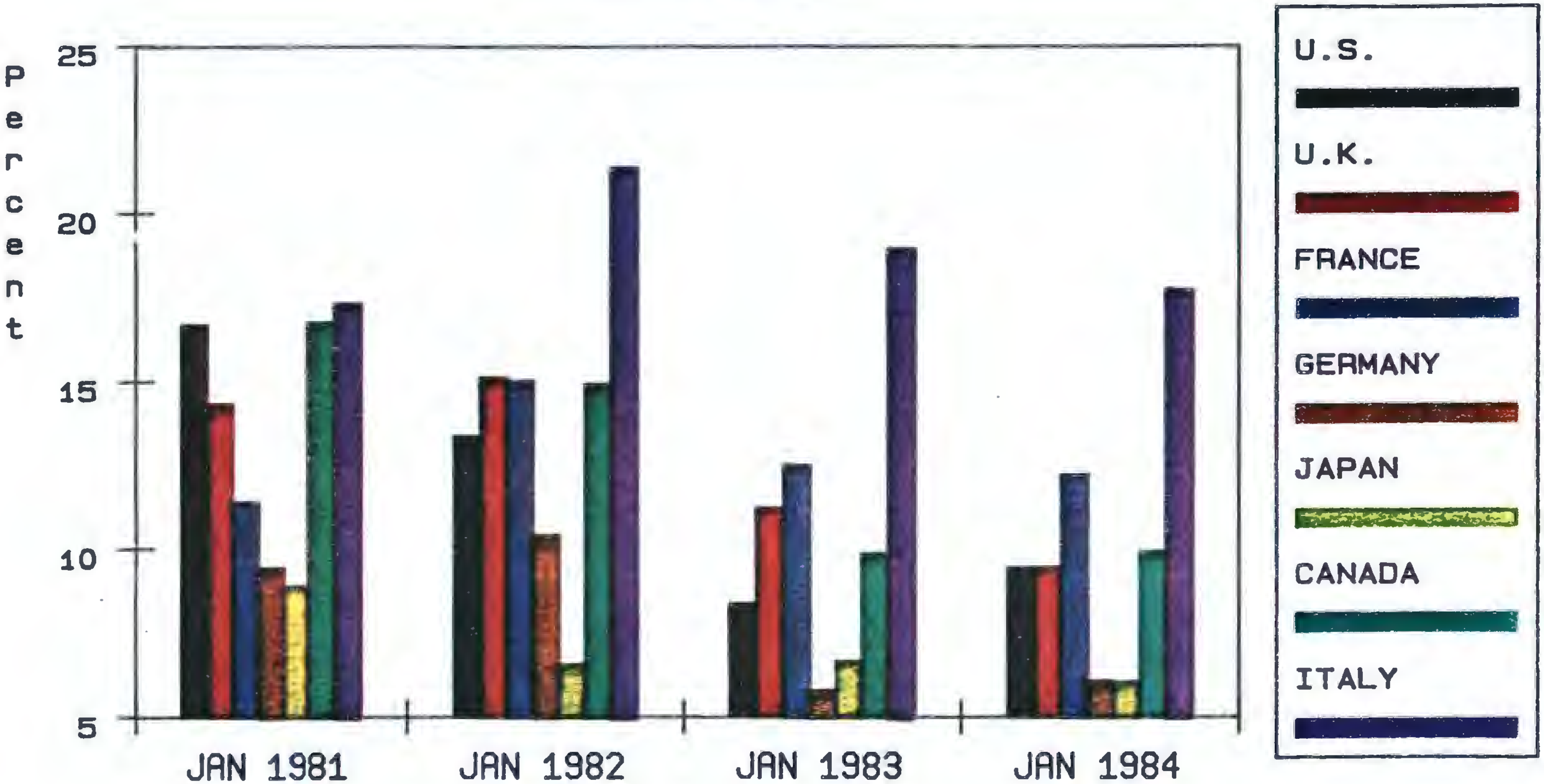
-- Largest interest rate decline where largest drop in inflation: U.S., U.K., Canada.

-- Low rates in lowest inflation countries: Japan, Germany.

-- High rates in Italy, France reflect inflation problems.

AVERAGE SHORT-TERM NOMINAL INTEREST RATES

(3-Month Rates)



Monthly average of Wednesday rates

Exchange Rate Changes: U.S. Dollar vs. Other Currencies
(Percent change from end-1980)

-- This chart presents bilateral exchange rates between dollar and currencies of other Summit countries. Upward movements reflect dollar appreciation versus currency named.

-- French franc has experienced greatest depreciation against dollar -- well in excess of German (D-Mark) depreciation.

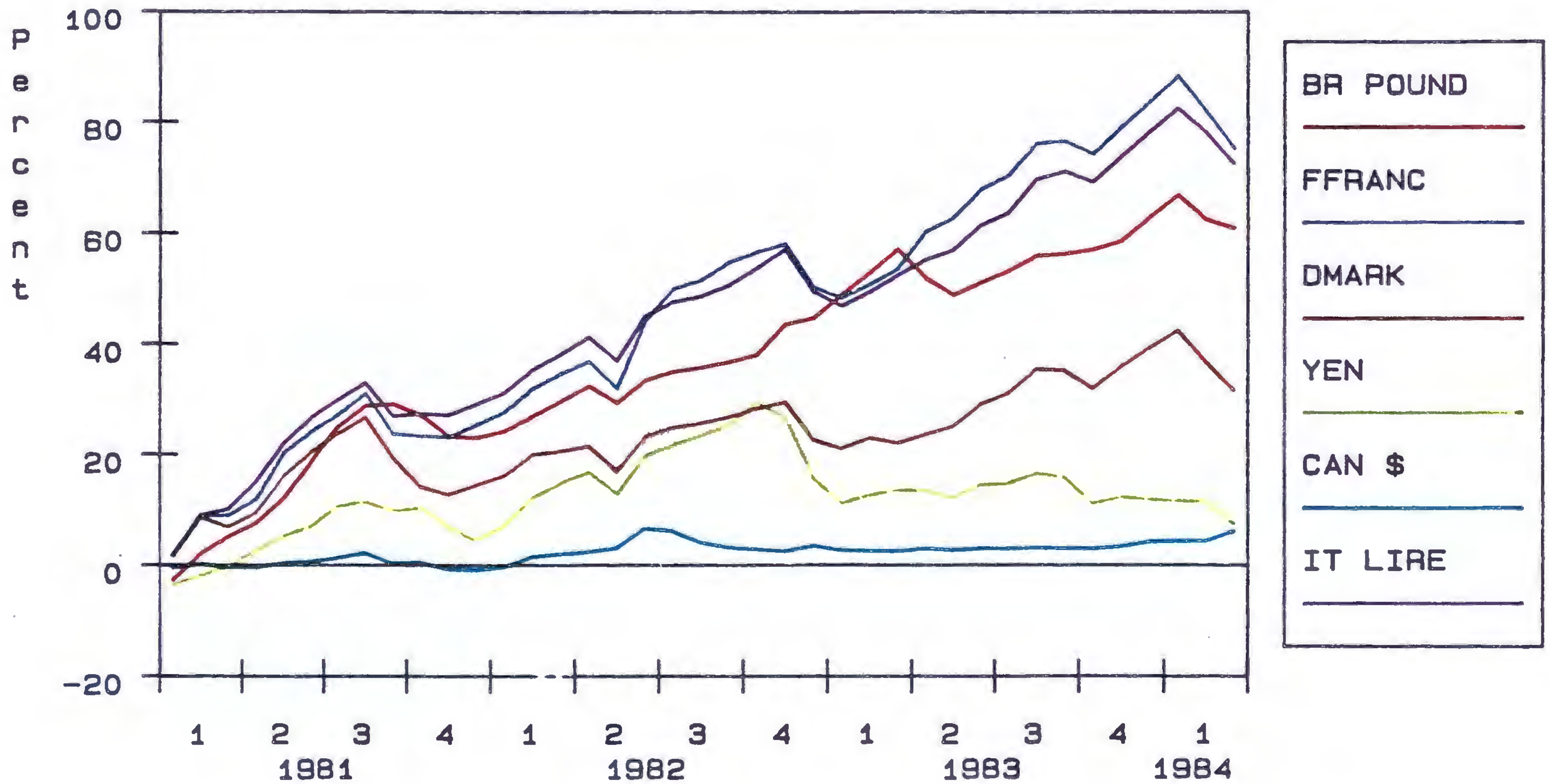
-- Dollar has depreciated against all other Summit currencies (except Canadian dollar) since late 1983.

-- Yen has appreciated significantly since late 1982. Over last three years, yen has been strongest of other Summit currencies against dollar (next to Canadian dollar).

-- Canadian dollar has moved very little against U.S. dollar, reflecting Bank of Canada's practice of targeting exchange rate rather than monetary aggregate.

EXCHANGE RATE CHANGES VS. U.S. DOLLAR*

(From December 1980)



* Monthly averages.

Upward movement indicates dollar appreciation.