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File Folder

TRIP TO EUROPE, PRESIDENT'S: LONDON ECONOMIC

SUMMIT 06/07/1984-06/09/1984 (BINDER) (4)

**FOIA** 

2000-147

**Box Number** 

CLARK

ID Doc Type		143		
	Document Description	No of Pages	Doc Date	Restrictions
3172 TALKING POINTS	FOR JUNE 8 MORNING MEETING	16	ND	B1
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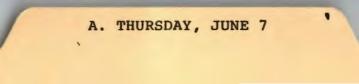
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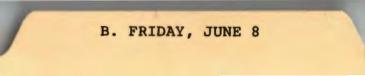
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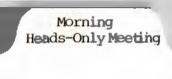
# V. TALKING POINTS BY EVENT





TO BE PROVIDED





# Friday, June 8 Morning Meeting Summary Presentation (For Cards)

- -- Can take confidence from fact of <u>recovery</u> -- especially strong in US, but evident in all.
- -- Testifies to success of non-inflationary policies we have discussed since Ottawa which all now following.
- -- Need continue with policies to assure recovery endures and spreads.
  - o Keys to <u>durable recovery</u> are to restrain spending, reduce size of government, stabilize money growth, increase flexibility of our economies by removing obstacles to initiative, investment, adjustment of labor and capital to new opportunities.
  - o Keys to spreading recovery are to maintain and enhance openness of trade and financial systems, continuation of our strategy for managing debt, including encouragement of effective adjustment in debtor countries.
- -- Encouraged by attention all are giving to promoting successful structural adjustment strategies.
  - o Essential for each of us if we are to create new jobs and build industries of future.
  - o Essential for developing countries if they are to share in future prosperity.
- -- Have effective strategy for managing debt problems.

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- o <u>IMF resources</u> replenished and adequate for short-term financing.
- o Adjustment, growth and open access to world markets are critical to success in medium-term.
- o For LDCs, openness to foreign investment essential to success of export-oriented growth strategy and restoration of debt/equity balance in external finance.
- o Need greater coordination between IMF and IBRD to assure consistency between short and longer-term adjustment efforts.

- -- Other key to sustaining recovery is movement toward greater trade liberalization.
  - O All recognize protectionist pressure intense; our task is to work together to contain and deflect those pressures.
  - o Must begin now to <u>build confidence</u> we are serious about liberalization.
  - o Can do this by implementing agreements to accelerate tariff cuts and begin preparations for new trade round.
  - o Hope we can agree here on need for new round and give momentum to preparations to permit decision on it during 1985.
- -- Believe basic <u>objective</u> of this Summit should be to lay policy foundations to move our societies into the next <u>decade</u> and beyond.
  - o Have suggested elements of future growth, trade and financial strategies to carry us into the 90's.
  - o Have also proposed to each that we cooperate in development of joint manned space station for launch within a decade.
  - o Agreement can be both symbol and practical demonstration of determination to cooperate to shape our own destinies.
  - o Hope all can agree to join in this effort.
  - o If some need more time to study, propose we at least agree it should be mentioned in positive terms in our final statement, with those not able to make decision now agreeing to study and decide soon.

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#### Friday, June 8, Morning Meeting

#### Setting

- -- The first formal meeting is the Heads of State/Government only (with one notetaker each). We expect the discussion to proceed along the same format as at Williamsburg, though Prime Minister Thatcher has not indicated exactly how she will approach it. She may ask each Head to make a Summary opening presentation, for which we have provided a summary set of points to make. Your full talking points are divided into main topics and sub-headings, keyed to subjects which will probably be discussed.
- They move from a general discussion of recovery and domestic economic policy (stressing that recovery has occurred and the policies we should follow to assure it endures) to the key components of policy needed to assure it is spread to other countries. We highlight two main components: (1) the need to promote adjustment in our own societies and in LDCs, with special emphasis on the immediate and longer-term aspects of our debt management strategy, and (2) the need to move to a more open trading system, with emphasis on the need to prepare for a new trade round.
- -- In addition to these subjects to cover in the morning meeting (if possible), you should cap your presentations with reference to your invitation to participate with us in joint development of the manned space station. You should argue that a decision to engage in such cooperation can be a powerful symbol of our common agreement to cooperate in other areas of economic policy as well as a practical demonstration of our determination to create a basis for technological advance into the 21st century.
- -- We do not expect all subjects in the talking points to be covered in the first meeting. To the extent they are not, they can be carried over for use in the following plenary sessions Friday afternoon and Saturday morning.

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#### TALKING POINTS

#### Recovery and Outlook

#### Your Objectives:

- -- Confirm consensus on policies needed to sustain non-inflationary growth.
- -- Explain your approach to budget and interest rates.
- -- Endorse need to reduce obstacles to change and promote structural adjustment.

#### Watch Out For:

-- Criticism of high U.S. budget deficits; argument that they will force interest rates up, choke off recovery and/or reignite inflation.

#### Talking Points

#### Recovery

- -- Growth in Summit economies will be twice as strong this year as it was last year:
  - O Our 1984 forecast real GNP growth for seven: 4.4% 1983 real GNP growth for seven: 2.4%
- -- U.S. recovery a major contributor.
  - o U.S. economy grew 6.2% in year to fourth quarter of 1983, versus 2.7% in other Summit countries.
  - o Contribution of U.S. growth reflected in increased U.S. imports from industrial countries:
    - up \$11 billion in 1983 from 1982;
    - up \$9 billion in first two months of 1984 from same period last year.
- -- Summit country economic recovery testifies to success of non-inflationary policies industrial countries have been following.

-- Welcome increased convergence of Summit countries on high growth/low inflation path.

#### G-7 growth:

1982: wide range; -4.4% (Canada) to 3.3% (Japan)
1983: only Italy negative; growth in four of Summit
countries over 2%;

1984: six of seven Summit countries will have real growth of more than 2.5%

#### G-7 inflation:

1982: wide range; 2.7% (Japan) to 16.3% (Italy); average G-7 was 6.8%

1983: all but France, Italy less than 6%; average G-7 was 4.3%

1984: all but France, Italy less than 6%, but inflation rates closer to other five; average G-7 will be 4.6%.

- -- Need to keep working to strengthen and spread recovery.
  - o Restrain government spending, so as to lower budget deficits and encourage continued expansion of private sector, especially investment.
  - o Public sector size (expenditure, regulation, tax burden) too large in all Summit economies, although wide disparity.
    - Federal, state, local spending as share of GNP: U.S., Japan about 35%; other Summit countries over 45%.
    - Reducing public spending frees resources for private investment that can increase economic growth.
    - Big public sector reduces flexibility of economy; governments do not respond to market forces as well as private sector.
    - U.S. efforts to deregulate very successful -- industry more responsive to consumers; economy benefits from greater efficiency.
      - Example 1: financial industry deregulation providing consumers opportunity to earn higher returns on savings.

Example 2: airline deregulation has made industry more competitive, more efficient.

- Cutting public sector can have double impact: increases flexibility and reduces deficit.
- o Working now with Congress on deficit reduction and spending cuts: determined to bring both under firm control.
  - Without deficit reduction plan:
    - o Ratio of Federal outlays/GNP falls from 23.8% (FY85) to 22.2% (FY89)
    - o Deficit falls from \$179 billion (5% of GNP) to \$129 billion (2.4% of GNP)
  - Rosegarden deficit reduction plan provides \$150 billion "downpayment" on deficit accumulated over FY85-87, \$105 billion of which is spending cuts.
  - Use of term "downpayment" intentional; first step in reducing deficit. Longer-term measures include: line-item veto; balanced-budget amendment; tax reform.
- o Reduce excessive monetary growth and volatility to increase confidence in lower inflation, thereby reducing interest rates.
  - No convincing evidence of linkage between deficit and interest rates.
  - Strength and balanced nature of recovery is evidence to counter assertion that large projected deficits would increase interest rates, choke off investment.
  - If interest rates did fall, not clear that domestic economic situation and policies in France, Germany, Italy would permit similar reductions in interest rates.
  - Others must realize U.S. budget deficit not cause of, or panacea for, world economic problems. Lower deficit would not make structural problems disappear or produce strong, non-inflationary growth in countries pursuing poor policies.

- Real task is to reduce inflationary expectations which will reduce interest rates.

#### Structural Adjustment

- -- Need also reduce structural obstacles to higher employment to sustain recovery.
  - o Structural change is key feature of dynamic economies. Must welcome it; not protect ourselves from it.
    - Efforts to protect jobs from changing economic circumstances in Europe have backfired.
    - From 1973-1983, U.S. number of persons employed rose by 17.3 million; in Europe, number employed declined by 2.7 million.
    - Strong recovery reflected in employment growth: From December 1982 to March 1984, employment in U.S. rose by 5 million persons.
    - Need create environment for new jobs.
  - o Continue anti-inflation policies.
  - o Withdraw support from failing industries to free up labor, capital.
    - Example: U.S. steel industry restructuring on own, without government help. From peak in '77, employment reduced by over 250,000 (to less than 300,000) and capacity by 15%.
  - o Remove disincentives for labor mobility.
  - o Let markets determine wages, rates of return on capital.
    - Example: Last year's bus strike was about how much wages should be <u>cut</u>, not raised. This happened largely because of deregulation of air lines, which made buses adjust to competition.
  - o Increase incentives for job creating investment.
  - o Will be happy to work in OECD to help advance our common analysis and exchange experiences on structural adjustment.



#### Convergence

-- Pleased with success of multilateral surveillance process.

Believe it has helped promote greater convergence among

Summit countries around low inflation, solid growth path.

#### Spreading Recovery

- -- Need to strengthen recovery in LDCs.
  - o Encourage effective adjustment.
  - o Maintain open trading system; vital to keep our markets open to them.
  - O Continue to implement debt strategy which has been successful in encouraging adjustment, avoiding financial disruption.

#### Finance, Debt, Monetary

#### Your Objectives:

- -- Confirm continued need to implement five-point debt strategy.
- -- If needed, refute arguments favoring major changes in strategy.
- -- Stress need to focus this Summit on requirements of medium-term elements of the strategy and work now to assure success of it in future.

#### Watch Out For:

- -- Proposals to stress need for increased official aid or generalized debt relief as keys to successful debt management.
- -- Need to reopen IDA VII agreement (perhaps with special reference to Africa).
- -- New French push for monetary reform/conference, perhaps as quid-pro-quo to agreement on new trade round.



#### Talking Points

#### Debt: Current Strategy

- -- Encouraged by progress in resolving international debt problems. Williamsburg five-point strategy is working:
  - o Most troubled debtors (Mexico, Brazil examples) have recognized need for serious adjustment efforts, have begun to get houses in order.
    - reflected in forecasts of higher LDC growth (average 4.5% in 1985-1990).
  - O IMF resources have been increased, and its lending policies strengthened, to permit it to carry out central role in strategy.
  - O Commercial banks continuing to lend (and to restructure debt as necessary), in support of adjustment efforts.
    - Roughly 5% increase in loans outstanding to non-OPEC LDCs (to about \$300 billion) in 1983, compared to excessive (20+%) growth rates in 1979-81.
    - Expect continued 5% growth in 1984, which should be sufficient to support adjustment yet enable banks to achieve more prudent position.
  - o Governments in creditor countries have shown ability and willingness to come up with temporary "bridge" financing in emergencies. (In fact, participation not limited to industrial countries, as demonstrated by hemispheric response to Argentina.)
  - Recovery is underway in industrial countries, providing growing markets for LDC exports.
    - Especially true in U.S. Imports from LDCs up \$9 billion in 1983 from 1982; rose \$4 billion in January-February of 1984 compared with same period last year.
- -- Current strategy has promoted necessary economic adjustment, and avoided disruption of financial system.
  - o Broad strategy has proven adaptable, on case-by-case basis, to deal with most difficult situations.



#### Debt: Alternative Strategies

- -- Major problems with proposals by other Summit countries.
  - o Increased concessional financing unrealistic given political and budgetary realities in industrial countries; also reduces incentives for adjustment.
  - o Generalized debt relief now would similarly weaken adjustment incentives; would also penalize countries which have adjusted and reward the laggards.
  - o IMF, IBRD and IDA have adequate resources if used prudently.
  - O Recognize LDC adjustment painful, but no real alternative. Carefully targetted bilateral aid can help alleviate most serious political pressures, but should not reduce incentives to adjustment.
  - o Share concerns about Africa; have proposed focusing IDA funding there as well as special U.S. Economic Policy Initiative for Africa; welcome cooperation with other donors and suggest our officials meet to discuss ways to coordinate.
  - o Complaints that we have no medium-term strategy are just plain wrong -- this is a medium-term strategy.
  - Adequate both for present and for longer-term: indeed, economic adjustment and LDC export expansion are long-term processes.

#### Debt: Medium-term Elements of Debt Strategy

- -- Can continue to strengthen implementation of debt strategy.
  - o Adjustment efforts still insufficient in some key LDCs. IMF and other multilateral organizations have central role in encouraging and supporting adjustment, including more realistic exchange rates in LDCs.
  - o Room for more coordination between them, especially to assure lending by IBRD consistent with sound adjustment policies worked out with IMF.
  - o Industrial countries should continue to strengthen own policies, to ensure durable non-inflationary expansion.



- O Also, much more needs to be done to remove barriers to trade and investment flows, by both industrial countries and LDCs.
  - Need encourage more liberal investment environment in LDCs toward increased private direct investment. Would diminish LDC reliance on debt financing, provide needed technology and management expertise, substitute for imports, and expand domestic employment and export capacity.
  - Should examine ways IBRD can act as catalyst for more direct investment.
  - Open markets in industrial countries crucial to LDC export expansion.
  - Also need elimination of subsidies, restrictions by LDCs to increase flexibility and efficiency of their economies, reduce import costs.
  - New trade round can help all countries prepare solid basis for growth by establishing business confidence that markets will be open and facilitate successful longer-term adjustment.

#### Monetary Reform (if raised)

- -- G-10 Ministers making progress on studies to improve monetary system.
- -- Decision on monetary conference premature pending outcome of studies.
- -- Believe effort to strengthen multilateral surveillance is most positive way to improve functioning of monetary system.

#### Trade

#### Your Objectives:

- -- Stress need to work together to contain protectionist pressure and foster open trade.
- -- Support Nakasone's proposal for new trade round.
- -- Propose Summit endorse need for new round and direct our governments to intensify consultations on preparations, looking toward decision in GATT in 1985 to launch negotiations.



#### Watch Out For:

- -- Particular concern about protectionist trend/actions in U.S.
- -- Possible criticism of extraterritorial aspects of U.S. laws/practices.
- -- Linkage of trade round to monetary reform.
- -- Resistance to specify need for decision on new round as early as next year.

#### Talking Points

#### Trade Liberalization

- -- Agree that key objective is sustaining recovery.
  - o Critical element in meeting this objective is trade.
  - o Further trade liberalization and more open markets essential ingredients to enduring recovery and adjustment.
- -- Protectionist pressures present a major challenge to our objective.
  - o Each can cite disappointment in what others have done or failed to do.
  - o Important we recognize pressures and work to contain them.
- -- This is the year to build confidence that we are serious about trade liberalization.
  - o Have proposed legislation to accelerate tariff cuts and provide special tariff advantages for least developed.
  - o Will press hard in Congress for these.
  - o We need to do much more.
- -- I fully support Nakasone's call for a new trade round.
  - o Will stimulate new investment and jobs by providing confidence necessary that we are working to liberalize markets on a permanent basis.

- o Will provide external environment that can liberate creative energies of our people and provide the markets we need to build the world-class high technology industries on which our futures depend.
  - Cannot build competitive industries behind high trade barriers or in markets splintered by protection.
- o Would be an important signal to LDCs for future export market opportunities, and encourage LDCs to reduce their own protectionist trade regimes that have stunted their growth.
- o Would enable us to address new problems in services and high technology products where each of us has strengths.
- o Can move us toward better arrangements for agricultural trade and help reduce frictions among us.
- -- Building on OECD Ministerial discussion, propose we acknowledge need for new round and direct our governments to intensify consultations in GATT and elsewhere to define our goals and create consensus with all partners. Should aim for formal decision on these to permit launch during 1985.
  - o (if needed): Important to set target of 1985 to create momentum and offer specific alternative to protectionist tendencies.

#### Protectionism (only if others complain about U.S.)

- -- All of us protect key industries like steel, agriculture, textiles and autos.
  - o Europe's limits on cars even stricter than U.S. (9% vs 20% of respective markets).
  - O U.S. and European steel markets about same size, but our imports twice as high.

#### -- Europe

- o Comprehensive restraints on video recorders and color TV tubes.
- o Market shares fixed at 1982 levels on autos, forklifts, quartz watches, hi-fi equipment and certain machine tools.

- o EC proposal to limit imports of corn gluten feed despite admission there is no evidence it competes with grain.
- o 90% of EC agriculture insulated by variable levies; export subsidies dump surpluses in world markets.

#### -- Japan

- o Import shares of agricultural and forestry sector (beef, citrus, tobacco, wood products) still miniscule despite Japan's lack of comparative advantage.
- o Serious problems remain in protection of high-tech industries like software, satellites, telecommunications.

#### -- Canada

- o Better than most, but
  - Negotiating domestic content arrangement with Japan on auto imports to complement "voluntary" restraint.
  - Continues discriminatory administration of certain programs (postal, patent and broadcast regulations).

#### -- U.S.

- o Since Williamsburg, have taken action to restrict some imports:
  - Safeguard tariffs on specialty steel (against which EC retaliated with restrictions on chemicals and sports equipment).
  - Extended "voluntary" restraints on Japanese cars (though at higher level than 1983).
  - Tightened up on administration of textile imports.
  - Safeguard tariffs on motorcycles.
- O Relief cases being heard in U.S. (independent) International Trade Commission (ITC) involve footwear, copper, steel, tuna (ITC rejected stainless steel flatware).
  - Intend examine each on merits if ITC recommends action.

o Pressure in Congress for domestic content on autos, wine equity bill, quotas on steel, more restrictive

countervailing duty laws. Administration resisting all these.

#### Space Station

#### Your Objectives:

- -- Get agreement in principle to cooperate in development of joint manned space station.
- -- Failing agreement by all, stress readiness to proceed with those who wish to join with us, and reference in communique welcoming your invitation and agreement (by those not yet ready to commit) to study with view toward decision before end of this year.

#### Watch Out For:

- -- Arguments that others need more time to study before deciding.
- -- Others raising problems which they say need to be solved before decision in principle can be taken.

#### Talking Points

- -- Believe basic objective of this Summit should be to begin to lay groundwork to prepare our societies to enter next century.
- -- Consensus we have reached on objectives of economic policy gives us common base from which to move forward.
- -- Have outlined elements of future trade, debt and financial strategies which will carry us into 90's.
- -- Have proposed international cooperation in development of manned space station which can be:
  - o concrete symbol of our longer-range strategic objectives, and
  - o practical demonstration of our determination to lay technological base for future.
- -- Hope all can agree to join in this historic effort in cooperation.

- -- Regardless of your decisions, U.S. intends to proceed with whichever partners wish to join us now.
- -- (if raised) Can handle specific problems (e.g. technology transfer, protection of trade secrets, etc.) through negotiation of agreements on participation. Asking now for statement of political intent.
- -- (if agreement not possible with all): Propose we state in communique that all welcome invitation, that while some have agreed to join now, others need study further and will decide soon.

#### Acid Rain

#### Your Objectives:

- -- Avoid commitment to new action now to impose additional control requirements or mandatory targets for reducing sulfur dioxide emissions.
- -- Stress readiness to expand cooperation on research into causes and control technologies for acid rain.

#### Watch Out For:

-- Pressure from Canada and FRG to endorse specific emission reduction action or target.

#### Talking Points

- -- Recognize acid rain is serious problem.
- -- Question not whether emissions should be controlled but whether controls beyond our own current stringent requirements would result in significant reduction.
  - o Sulfur emissions have fallen by 25-30 percent in U.S. since original controls instituted in 1976.
  - o U.S. law requires all new sources in U.S. to install scrubbers (significantly stricter requirement than in most other countries).
- -- Need more research into causes and effects of acid rain and control technologies before mandating additional controls.
- -- Have proposed doubling funding for study of causes and effects (by \$55 million) and added \$67 million to develop new control technologies.

- -- Will continue to work with others in international research programs, but must develop scientifically and economically sound options first before we can agree to need for further emissions controls in U.S.
- -- Problems in Europe may be different and decisions on how to proceed should be pursued as Europeans deem necessary.

#### Technology

#### Your Objectives:

- -- Endorse continued work on technology cooperation.
- -- Use reference in Technology Report to problems in trade to reinforce need for greater consensus on economic relations with East.
- -- (if raised): Support Nakasone proposal for meeting of Science Ministers if kept separate from space station cooperation.

#### Watch Out For:

- -- Implicit or explicit criticism of U.S. policies to control transfer of technology which could benefit Soviets.
- -- Japanese effort to make Science Ministers' conference a permanent Summit related activity.

#### Talking Points

- -- Welcome continued progress in the 18 study areas.
- -- Report notes problems associated with our common effort to get better control over transfer of strategically important technology to East.
- -- Tighter controls are essential to Western security and maintenance of lead over East in technology which Soviets can use in improving weapons systems.
- -- We can reduce, if not eliminate, many of associated problems by working to broaden our consensus on security implications of East-West economic relations.
- -- (if raised) Can support Japanese proposal for meeting of Summit country Science Ministers. However, don't believe this should become Summit-related activity for future.



#### East-West Economic Relations

#### Your Objective:

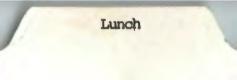
-- Secure endorsement of need to continue work in various fora to broaden our consensus on economic and security implications of East-West economic relations.

#### Watch Out For:

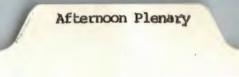
-- Lack of enthusiasm by some to continue this work beyond this year.

#### Talking Points

- -- Pleased with progress in work programs in various institutions since our review last year.
  - O New agreement on export credits has virtually eliminated subsidy element in Western trade with Soviets; important we adhere to spirit as well as letter of that arrangement.
  - o Have strengthened enforcement of COCOM embargo and are working on getting greater cooperation with third countries.
  - O Have broadened common understandings of economic and security problems in economic relations with East through OECD and NATO studies.
- -- Need continue these efforts, both to keep our analysis in OECD and NATO up to date and to expand our consensus.
  - o Important we continue search for and development of alternative energy sources to eliminate risk of over dependence on Soviet supplies.
  - O Need resolve differences in COCOM list review on remaining items, of which computers and software most important.



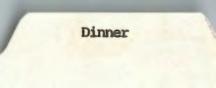
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#### Friday, June 8, Afternoon Plenary

#### Setting

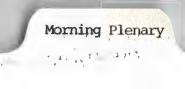
- -- The plenary session includes Heads of State/Government, Foreign and Finance Ministers and Personal Representatives as note-takers. We expect Prime Minister Thatcher will lead off by summarizing the morning discussions and suggesting topics for discussion in this meeting, probably as agreed during the morning meeting.
- -- It is likely that the British Chancellor (Lawson) would present a brief report on the work of the G-10 studying ways to improve the monetary system. The British Foreign Secretary might give a report on the Versailles Technology Cooperation Program.
- -- Your morning talking points should be used for this meeting as the need arises. You may also wish to ask Secretaries Shultz and Regan to speak to various points (e.g., Shultz on trade, environment, technology cooperation and East-West economic relations; Regan on the economic outlook, U.S. domestic economic policy, the debt strategy and monetary reform).



TO BE PROVIDED

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C. SATURDAY, JUNE 9



### Saturday, June 9, Morning Plenary

#### Setting

- This plenary session will include the same participants as Friday afternoon. The main order of business will be to approve the final statement, which will have been drafted the night before by the Personal Representatives. If time permits, there is likely to be further discussion of topics which may not have been taken up the previous day.
- Our top priorities are to get a statement of agreement to cooperate with us in development of the manned space station and statements in the communique whichs(1) express confidence that our policies will lead to sustained, non-inflationary growth and new jobs in the years ahead; (2) confirm continued commitment to our agreed debt strategy, while stressing its medium-term aspects and requirements (as outlined in the Scope and Economic themes papers), and (3) endorse the need for a new trade round and for preparations to proceed so that a decision on it can be taken in GATT next year.
- -- Talking points on the draft communique will be prepared the night before for discussion with you before the morning meeting.
- -- Chancellor Kohl will invite participants to convene the next Summit in Germany in 1985:

# Talking Points (In addition to those on substantive issues in Friday Morning Section, for use at conclusion of session)

- -- Wish to thank Prime Minister Thatcher for positive and purposeful leadership shown in organizing and conducting these meetings.
- -- Believe we have found right format for these Summits and certainly the right content.
- -- All can be satisfied with results:
  - o Have confirmed our consensus on economic policy objectives and our confidence that we are on the right track.
  - o Have traced a positive vision of our joint future and directed work which will assure that prospects for world prosperity and security in freedom will be bright.
  - o (If appropriate): Our agreement on space station is compelling and dramatic symbol of our determination to cooperate in shaping our future destiny.
- -- Welcome Chancellor Kohl's invitation to meet next year in Germany. The American electorate and God willing, I look forward to seeing each of you there.