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3.

SUSTAINED, NON-INFLATIONARY GROWTH OF INCOME AND EMPLOYMENT

Background: The world economy is beginning to revive from a three-year-long recession. Industrial country real growth was almost nil during 1980-82. Most countries implemented strong anti-inflation policies during that period and the results of that disinflation are now visible. Inflation rates in industrial countries have declined sharply from 13 percent in 1980 to less than six percent in February 1983. This impressive gain in controlling inflation is also reducing expectations about future inflation and setting the stage for a durable recovery.

Forecasts of real growth have been revised upward continuously over the last six months. Most now anticipate an average two percent growth in real GNP for 1983. The recovery is expected to gather strength over the year and record three and one-half to four percent growth in 1984. Such a recovery will stop the rise in unemployment rates during 1983 and reductions in unemployment rates are expected in many countries by the end of 1983.

U.S. Position: The advantages of following anti-inflationary policies are now clear. Those countries that have succeeded in reducing inflation rates significantly are now experiencing economic recoveries. Their inflation rates are generally below five percent and real growth will quicken over the course of this year and next. In those countries where inflation rates remain in double digits, no recovery is in sight, external deficits are still large, and exchange rates have been under strong pressure.

The only successful way to create permanent jobs is to establish durable, non-inflationary domestic growth. If countries return to discredited inflationary policies in order to reap short-term gains in terms of jobs and real growth, they will witness again the "stop-go" economic environment of the 1970's. We must resist any efforts to stimulate artificially domestic economies by excessive monetary growth or increased government spending..

INTEREST RATES, MONETARY POLICY AND THE BUDGET DEFICIT

Background: Some of the other Summit countries will complain about high U.S. interest rates as an obstacle to world recovery. At last year's Summit, the blame was placed on excessively tight U.S. monetary policy, but with more rapid monetary growth since last fall the complaint has shifted to high federal budget deficits, especially for the "out years."

U.S. Position: Future U.S. Federal Government deficits can affect future interest rates in two different ways. First, markets may fear that the future deficits will be monetized at a time of high aggregate demand, thereby generating future inflation from excessive monetary growth and leading to higher nominal interest rates to compensate lenders for the decline in the real value of their assets. Alternatively, markets may expect that future deficits will not be monetized, and that monetary restraint will raise real interest rates as private investment is crowded out to make way for federal spending. In either case, expectations of future inflation prevent current long-term interest rates from declining as much as would be expected from the sharp reduction in U.S. inflation.

Many foreigners ~~tend to~~ exaggerate the interest rate impact of future U.S. deficits. Also, some countries are looking for scapegoats for their own policy failures. The level of interest rates is much more influenced by expected inflation rates than by the size of budget deficits. Short-term interest rates have fallen sharply in countries that have pursued anti-inflation policies. In the U.S., short-term rates have declined from 18 percent two years ago to less than 9 percent at present. However, this does not mean that the U.S. is unconcerned about large budget deficits in the out years. We are concerned and the President is committed to reduce them.

MULTILATERAL SURVEILLANCE

Background: At the Versailles Summit, the U.S. proposed, and the Summit leaders agreed, that the major currency countries should work together to bring about more convergence in their basic economic policies and conditions around the twin objectives of low inflation and sustainable growth. They agreed to a multilateral surveillance process in cooperation with the IMF to examine national policies in light of their relationships to one another, seeking to encourage better alignment of current policies to achieve sustainable non-inflationary economic growth over the medium term (2-3 years). The major currency countries -- the U.S., U.K., France, Germany and Japan -- have met twice since the Versailles Summit to discuss convergence of economic policies.

U.S. Position: This process of special consultation with the participation of the IMF is aimed at the central problem of instability in a floating exchange rate system or, for that matter, any exchange rate system. Instability is ultimately a consequence of divergencies in basic economic policies leading simultaneously to high inflation or high interest rates in one country and low inflation and interest rates in another. The multilateral surveillance process initiated at Versailles seeks to reduce the probability of such divergencies, recognizing that these consultations are political in nature and must respect national sovereignty and the accountability of each leader, primarily to his or her own people. It also serves to point up possible exchange rate implications of countries' domestic policies in light of the policies being pursued by others.

EXCHANGE MARKET INTERVENTION

Background: At the Versailles Summit in 1982, the U.S. proposed a study on exchange market intervention in response to the wide differences of opinion on the effectiveness of past intervention in exchange markets. The study, carried out by a working group of officials from the Summit finance ministries and central banks, was completed in January 1983. On April 29, 1983, the Summit Finance Ministers and Central Bank Governors reviewed and accepted the working group's report and issued a statement with the following main elements:

1. Our governments agreed on the principle that orderly underlying economic and financial conditions are necessary to achieve stable exchange markets. Our governments pledged themselves to pursue economic policies designed to foster convergence in the economic performance of our countries, toward sustainable non-inflationary economic growth and high employment, as a primary means of attaining such conditions.
2. Intervention cannot achieve significant or lasting effects unless there is an underlying change of fiscal or monetary policies.
3. The path to greater stability in exchange rates must lie in the direction of compatible mixes of policies supporting sustainable, on-inflationary growth.
4. In formulating policies, countries should have regard to the behavior of exchange rates, as an indicator of the need for policy adjustment.
5. The role of intervention can only be limited. Intervention can counter disorderly market conditions and reduce short-term volatility. Intervention will normally be useful only when complementing and supporting other policies. We are agreed on the need for closer consultations on policies and market conditions; and, while retaining our freedom to operate independently, we are willing to undertake coordinated intervention in instances where it is agreed that such intervention would be helpful.

U.S. Position: Our proposal for the study on exchange rate intervention was carried out cooperatively and resulted in unanimous approval of a policy statement. We have agreed to exchange more information with our partners on policies and market conditions. We agreed that achieving exchange rate stability, which does not imply rigidity, is a major objective. The role of intervention is only limited, but can be useful to counter disorderly markets and to reduce short-term volatility. But, since the basis of our intervention to date has been market disorder, this position is not a change in the substance of our policy. We agreed that the path to greater exchange rate stability must be in the direction of compatible mixes of policies supporting sustainable, non-inflationary growth. We hope to strengthen further the multilateral surveillance process at the Summit.

The study did find that intervention on a coordinated basis by two countries or more could have a bigger impact, basically for psychological reasons, than could intervention by a single country. But, even in that situation, the impact would still be limited and transient.

The policy of this Administration has been and continues to be that we consider intervention to be useful only in instances of a disorderly foreign exchange market. In those instances, intervention can help bring order back to an otherwise disorderly market.

Multilateral Surveillance

Question: What is multilateral surveillance and how does it work?

Answer:

The participants at the Versailles Summit in 1982 agreed that the only way to assure durable, non-inflationary economic recovery and stability in foreign exchange markets was to create an environment in which the economic policies and performance in the Summit countries converged towards the "best performers." The Summit leaders agreed on a framework in which they would examine their national policies in cooperation with the IMF. They would examine those policies in light of their relationships to each other in order to achieve greater convergence in basic economic policies.

The process of multilateral surveillance involves a meeting of the finance ministers and central bankers for frank, off-the-record discussion of their policies and outlook. The managing director of the IMF, in his personal capacity, serves as moderator of the group and provides analysis of the potential effects of divergences in policies and performance among the countries on exchange markets and inflation.

Two meetings of the major currency countries -- the U.S., Japan, France, Germany, and the UK -- have been held under the multilateral surveillance process.

Multilateral Surveillance

Question: Is surveillance a topic for discussion at the Williamsburg Summit?

Answer:

The need for continued efforts to bring about a convergence of our policies and performance still exists. Substantial progress has been made in understanding each other's policy goals and approaches and the potential conflict from divergence in economic performance. However, we have yet to achieve a satisfactory convergence in performance among all the Summit countries. Therefore, we would expect the Summit leaders to discuss the economic situation and outlook, with a possible focus on ways of strengthening the existing surveillance process.

Interest Rates, Monetary Policy, and the Budget Deficit

Question: Shouldn't monetary policy by eased to reduce interest rates?

Answer:

Some Summit countries have suggested that more rapid money growth in the United States would produce lower interest rates. While rapid growth of the money supply would likely result in a temporary decline in interest rates, increased monetary growth would raise inflationary expectations over the longer term. Raising inflationary expectations would, in turn, call for a higher inflation premium in interest rates and thus produce higher interest rates.

Historical evidence is clear on the connection between rapid monetary growth and high interest rates in the United States. The only lasting way to lower interest rates is to follow stable, predictable monetary growth which, over time, will ease inflationary expectations.

Budget Deficit

Question: Wouldn't raising taxes lower the budget deficit?

Answer:

A basic tenet of the Reagan Administration's economic philosophy is that the level of government involvement in the economy should be reduced. This approach applies to government spending, taxation, and regulations. Historically, tax increases have not served to balance the budget. They have, instead, provided more revenues which Congress has appropriated and spent. Raising taxes in the current economic environment would remove the expenditure constraint from the Congress.

More generally, raising taxes would reduce savings and profits. At the early stages of an economic recovery, raising taxes would tend to stifle growth. The Administration is deeply committed to reducing "out-year" deficits. It has proposed a set of contingency taxes for use should Congress continue to fail in its efforts to reduce expenditures.

Sustained, Non-Inflationary Growth of Income and Employment

Question: Will inflation pick up speed during the recovery as it has in the last two cyclical up-turns?

Answer:

It appears that, in most Summit countries, the commitment to anti-inflationary monetary and fiscal policies is substantially firmer than it was during the 1970's. Most of the Summit participants now recognize that attempts at "quick-fix" solution to the recovery process bring only short-term real growth gains and result in re-igniting inflationary pressures. Current evidence suggests that the recovery will be better balanced and less explosive than the up-turns experienced in the 1970's. As a result, we don't expect that inflationary pressures will be heightened as the recovery proceeds.

Sustained, Non-Inflationary Growth of Income and Employment

Question: Will the recovery be strong enough to reduce unemployment?

Answer:

Projections of economic pick up in the industrial countries have been progressively revised upwards during recent months as evidence of the emerging recovery has become more clear. As the result of two major factors -- sharper than expected reductions in inflation rates and a sizeable decline in oil prices -- confidence in the durability and strength of the recovery has been bolstered. Current estimates now suggest that the Summit countries are likely to expand between three and one-half and four percent on a 4th Quarter to 4th Quarter basis in 1983, and that this expansion will continue at a similar rate in 1984.

On the basis of such a recovery, unemployment rates will have peaked in most of the Summit countries during 1983 and, by early next year, will have started declining. Those countries which have not yet succeeded in controlling inflation, however, are not currently expected to have established the conditions for sustainable growth and a reduction in unemployment rates before next year.

Exchange Market Intervention

Question: What does the term "coordinated intervention" mean?

Answer:

From our point of view, when exchange markets are disorderly and we think intervention necessary, coordinated intenvention would entail intervention in the foreign exchange market that resulted from communications between two or more finance ministries before undertaking the intervention. At times, the intervention might be undertaken by two or more governments.

Exchange Market Intervention

Question: Does the release of the intervention study reflect agreement among Summit countries on all aspects of intervention?

Answer:

We regard the working group's report as a significant and useful addition to the body of information and analysis on this topic. The study distills a great deal of evidence and spans a number of points of view and gives us a common basis for discussion of intervention. Differences of opinion on the role of intervention continue to exist. But, the study process has already resulted in major improvements in our mutual understanding of issues, concepts and objectives related to exchange rate policy and intervention in foreign exchange markets.

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U.S.-EC AGRICULTURE

Q: What will be the effect on the Summit if the agricultural dispute with the EC is not resolved -- or worse, if the U.S. and EC are involved in an agricultural trade war?

A: -- We are hopeful the Europeans understand the seriousness of our concerns and will respond with concrete positive proposals for addressing them. Just as the United States and the European community resolved the difficult steel dispute last year, we are confident that we can resolve this issue satisfactorily.

-- We do not expect the bilateral agricultural issue to be a major topic at the Summit. The Summit focuses principally on multilateral issues.

AGRICULTURAL TRADE AND EXPORT SUBSIDIES

Q: What is the Administration doing to liberalize the agricultural trade system? What are we doing to insure that our exporters can compete with subsidized exports by our competitors, notably the European Community?

A. -- The U.S., the world's most efficient agricultural producer, has a great stake in a competitive and fair agricultural trade system. Our goal is to limit the use of export subsidies and other trade-distorting practices for agricultural products. We are currently working toward that goal in multilateral organizations such as the OECD and the GATT. Bilaterally, we are talking with the EC and Japan on agricultural trade issues. We want Japan to liberalize its import regime for farm products such as beef and citrus, and with the EC, we are seeking curbs on the use of export subsidies in third markets. We hope these efforts will be successful.

-- We prefer to solve our agricultural trade problems with the Europeans amicably, without risking a trade war which would hurt both sides. If we begin to undertake a massive export subsidy program, other, non-subsidizing suppliers will have to take action to protect their market shares. If all the exporters end up paying costly subsidies just to retain present markets, the only beneficiaries will be the importers.

-- But we will not be passive. The primary objective of the recently negotiated sale of one million tons of U.S. flour to Egypt was to demonstrate our concern over the continued EC use of export subsidies.

-- At the same time, action is continuing on the cases which the U.S. has brought to the GATT in response to the EC's agricultural trade practices.

LDC ISSUES

Q: Will the Williamsburg agenda include issues of special concern to the developing countries, such as aid and IDA, commodity problems, global negotiations, and UNCTAD VI?

A: -- The subjects that the leaders will discuss -- recovery and sustainable growth; strengthening the open trading system; assuring adequate liquidity in the financial system; improving international economic cooperation -- include the developing countries in a central and concrete way. The need for effective domestic adjustment to achieve growth without inflation, the extensive trading relations between industrial and developing countries, and the financial interdependence between these countries in the form of large loans and capital flows -- all confirm the reality of an integrated world economy. No one needs to emphasize this reality for political purposes. It is a practical fact. It is in that spirit that the leaders will discuss all the relevant development issues, such as aid and IDA, commodities, food and energy production, encouragement to private investment, and UNCTAD VI.

DEBT RESTRUCTURING

Question

Is there any indication that U.S. banks are changing their cross-border lending policies? How?

Answer:

U.S. banks have pulled back sharply from lending to developing countries since mid-1982. We expect only a modest increase in claims outstanding during 1983 compared to growth rates of around 20 percent from 1979 to mid-1982. A significant part of this growth will be lending associated with IMF adjustment programs.

It remains to be seen whether and to what extent the increased caution now being exercised will change. Much will depend on the success of the adjustment policies being pursued by the countries experiencing debt servicing difficulties and on the vigor of economic recovery. It seems unlikely that banks will revert to the lending growth rates that characterized the 1979 to mid-1982 period. Nevertheless, the Treasury and the bank regulatory agencies are considering how best to adapt the regulatory process to ensure that future growth in foreign lending remains at prudent levels.

DEBT RESTRUCTURING

Question:

How does the Administration plan to handle a default by a major sovereign debtor, e.g., Brazil or Mexico? What are the contingency plans? Please be specific in your answer.

Answer:

A deliberate "default" (i.e., a repudiation or a failure to resolve problems of arrearages over a reasonable time period) by a major sovereign borrower such as Brazil or Mexico is very unlikely, given that it would preclude most transactions by the defaulting country with the world economy for an indefinite period into the future. There would be a scramble to seize overseas assets of the countries concerned. Even transportation and postal services might be affected. This breakdown in trade would not be in the interest of either the debtor or the lending countries.

Another scenario would be one in which the country concerned (a) encountered significant financial difficulties, leading to major problems in servicing its external debt, and (b) despite the difficulties, failed to take steps to correct them. The situation in Mexico and Brazil reached the first stage of this scenario but not the second.

As explained in the December 21 testimony before the House Banking Committee, in both cases the United States and other countries promptly provided short-term financial assistance, pending negotiation of medium-term credits from the IMF in support of economic adjustment programs in those two countries. Both countries, recognizing the need to reduce the rate of growth of their external borrowing, have negotiated moderate amounts of new credits and debt relief with commercial banks, and have undertaken to achieve specificed economic policy objectives as part of their IMF programs.

We expect that these countries will persevere in their adjustment policies so that their creditworthiness is progressively restored. The prospects of a "default" in the sense of either a repudiation or a failure to resolve problems of arrearages over a reasonable time period seem extremely remote. Moreover, the specific consequences of either scenario are very difficult to predict. Accordingly, any discussion of contingency plans to deal with such a development would be speculative and quite possibly counterproductive.

IMF Conditionality

Question: Does the International Monetary Fund (IMF) impose harsh austerity on countries leading to lower economic growth, falling imports and political unrest?

Answer:

It is important to remember that the IMF does not cause payments problems, and it cannot eliminate the need for sound economic adjustment measures to solve those problems.

The IMF does not support austerity as an economic goal or as "punishment" for policy mismanagement. By making financial resources available, the IMF in fact provides countries additional time and scope to make economic policy adjustments at higher levels of imports and economic growth than would otherwise be possible.

Of 26 recently approved IMF programs, imports are expected to be higher in the first program year than in the two preceding years in 19 cases; real economic growth will also be higher in the great majority of cases.

The key question is not whether economic conditions are less than ideal during the period of IMF supported adjustment, but what adjustment would have been without IMF financing and policy advice.

Need for Increased U.S. Funding for the IMF

Question: Given the serious economic situation at home, why should the United States provide more resources to the International Monetary Fund (IMF)

Answer:

The IMF, the world's central official international monetary institution, is playing a crucial role in the U.S. strategy for dealing with current global economic difficulties in a manner that avoids repetition of the widespread trade and payments restrictions and economic contractions of the 1930's.

The maintenance of a sound world economy and stable financial system are essential to U.S. economic recovery.

- -- 20 percent of all goods produced in the U.S. are exported.
- -- the output of nearly one-third of all U.S. farm acreage is sold abroad.
- -- 5 million jobs are in export related industries.
- -- major loan defaults by foreign borrowers will reduce our banks' ability to provide financing to domestic borrowers and could raise U.S. interest rates.

Failure of the U.S. to support an institution we created and have led for 40 years would damage vital U.S. foreign policy and security interests:

- -- Absent IMF financing, many countries would have to adopt severe and abrupt economic adjustments that could lead to political instability. The IMF is helping countries of vital interest to the U.S., including Mexico, Brazil and Argentina.
- -- Confidence in U.S. leadership would be eroded were we to neglect our international responsibilities.

INTERNATIONAL TRADE

Q: Given the weak undertakings of the major countries at the GATT Ministerial, why do you expect stronger commitments at Williamsburg to avoid protectionism and pursue new areas for trade liberalization?

A: -- It is clear that protectionist measures would choke off the recovery we have all been waiting for and that has finally begun. That is one powerful reason. Secondly, the prospect of a Western recovery that will gather momentum and spread should make it easier for governments to resist new protectionist measures and to agree to roll back existing restrictions as conditions improve. Thirdly, there is increasing recognition that protectionism would further strain the financial system by denying debtors the earnings they need to service their debts and buy our goods. In the longer-run, the only way the system will successfully manage structural aspects of the debt problem is to preserve and enhance access to market and the capacity to export, particularly for developing countries.

COMBATTING PROTECTIONISM

Background: Since World War II, the United States has been a leader in the effort to reduce trade barriers of all forms. For all countries, international trade and financial flows are extremely important. Either the free world continues to move forward and sustain the postwar drive toward more open markets or we risk sliding back to the tragic mistakes of the 1930s.

In the last several years, the process of freer trade has come to a halt. Faced with the economic problems of worldwide recession and inflation, the calls for protectionism in many countries are louder and more pressing than they have been in many years. This has resulted in many nations considering - if not adopting - protectionist trade measures. At the GATT Ministerial in November 1982, the United States urged the Ministers to make a firm statement regarding protectionism. Although not as strong as we would have liked, a political commitment was made by the Ministers to "refrain from taking or maintaining any measures inconsistent with the GATT" and to "resist protectionist pressures in the formulation and implementation of national policy and in proposing legislation."

U.S Position: The United States believes that this progressive language must be backed up with substantive action over the coming months. If nations violate the political commitment made at the Ministerial, the trading system will be fundamentally undermined. History has taught us that the freer the flow of trade across borders, the greater world economic progress and the greater the impetus for world peace.

The United States is committed to maintaining free and fair world trade. We cannot tolerate unfair trading practices which adversely affect either our domestic market or our opportunity to trade and invest elsewhere. The United States' policy has been and will continue to be one which seeks additional market access rather than protectionism.

AGRICULTURAL TRADE

Background: World agricultural trade continues to suffer from the effects of market-distorting trade practices, such as export subsidies. Past rounds of trade negotiations in the GATT have failed, in this respect, to subject agricultural trade to the same rules that govern trade in non-agricultural products.

Of particular concern are the export subsidy policies of the European Community (EC). The EC's Common Agricultural Policy (CAP) guarantees high prices to European farmers, through the use of "restitutions" or subsidies, to bring the EC price down to world market levels. As a result, the EC has become the world's second largest agricultural exporter (after the U.S.). It competes with non-subsidizing exporters for markets for key agricultural commodities, including grains, dairy products, meat and poultry.

Efforts to redress this situation were made at the November, 1982 GATT Ministerial, and the effects of export subsidies are being studied in the GATT and other fora. The U.S. and the EC have been engaged in an intensive bilateral dialogue on agricultural trade issues since last December. The U.S. has also demonstrated the depth of its concern over EC agricultural export subsidies by subsidizing a sale of its own: the export of one million tons of U.S. flour to Egypt.

U.S. Position: The U.S. is seeking to limit export subsidies on agricultural products because they represent a major distortion of the world trade system. The commitment of Western nations to an open and liberal trade system should include strengthening the GATT rules on agricultural trade. Although current rules allow export subsidies on primary agricultural products under certain conditions, the U.S. believes a multilateral effort to minimize the trade and resource-distorting effects of these practices over time would result in economic benefits to all trading nations.

Through the continuing bilateral dialogue with the EC on agricultural issues, as well as through efforts in international bodies such as the GATT and the OECD, the U.S. hopes to make concrete progress on limiting the use of export subsidies. This effort is not an attempt to dismantle the CAP, which we recognize as one of the most visible symbols of European unity. It is, however, an attempt to bring the rules for trade in agricultural products in line with the stricter rules for industrial goods. We recognize that many nations regard agriculture as a unique sector which may require special domestic support measures. However, we believe it is unfair for other nations to export their problems of internal adjustment through export subsidies.

HIGH-TECHNOLOGY TRADE

Background: Today virtually all nations view high-technology industries as critical to their national security, and a broad range of interventionist policy instruments have been adopted by many foreign governments to protect and foster indigenous high-technology sectors. Growth in advanced, or high-technology, world trade has been rapid--increasing from $25 billion to $500 billion in two decades. However, the U.S. relative share of world high-technology trade has been declining.

In the preparations for the Versailles Summit, President Mitterrand initiated a report on high-technology, which endorsed government intervention. Through the efforts of the United States, Germany and other countries, the final report, entitled Technology Growth and Employment, actually supports market processes for the commercialization of technology while strengthening R & D cooperation and calling for the strengthening of "an open and competitive trading system".

U.S. Position: We are concerned that the above mentioned intervention policies, unrestrained, may induce governmental rivalries that tend to splinter global markets and reduce the pace of innovation.

The United States was successful in launching, in May 1982, a study of high-technology problems and related governmental policies in the Organization of Economic Cooperation and Developement (OECD). The United States also has proposed that the GATT undertake a study of the special trade problems of the high-technology sector.

TRADE IN SERVICES

Background: Discussion to establish rules that discipline trade in services must be accelerated in order to position this growing area of the developed country economies for future growth. The service sectors (banking, insurance, telecommunications, transportation) offer some of the most dynamic export opportunities among the OECD countries, but these industries are inhibited by a variety of foreign barriers limiting their ability to export.

U.S. Position: We have to examine those industries where our future employment growth lies, and the service sectors have tremendous potential for developed countries with a well-educated workforce. In the United States, practically all of the 20 million new jobs created in the past 10 years have been in the service sector.

Service sectors face a number of export problems that are similar to trade difficulties applicable to goods. We must examine the need to apply a set of rules and disciplines, such as those under the GATT, to our service sectors. Services are not covered by the GATT rules. The United States is urging its trading partners to discuss ways to establish a set of international disciplines that will liberalize trade. Presently there are some informal discussions underway in the GATT to identify some of these problems, but we need much more active participation from some of the countries to move this process forward.

INSTITUTIONAL INNOVATION IN TRADE AND FINANCE

Background: Interrelationships between international trade and financial issues have become critically relevant to sustainable growth and stability in the world economy. It is axiomatic, though sometimes forgotten, that trade cannot exist without finance, and finance is of no value without the collateral trade. We therefore need better coordination of trade and financial policies.

U.S. Position: The debt situation, global recession and protectionist trends have brought interrelationships between macroeconomic/financial policies and trade policies into sharper focus. Better economic performance, growth in world trade and orderly resolution of less developed countries' debt problems require recognition that:

---sustainable non-inflationary growth depends on maintaining and expanding an open multilateral trading system;

---ability to service debt is linked to ability to export;

---although a continuous decline in international interest rates will lighten the burden of LDC debt repayments, the long-term solution to the debt situation requires increased trade ; and

---availability of financing adequate to support orderly adjustment by LDC's helps them to maintain essential imports which also assists sustainable recovery in developed countries.

Better coordination of trade and financial policies among nations is needed. Close cooperation among the IMF, GATT and the World Bank is also desirable.

ROLE OF THE INTERNATIONAL MONETARY FUND AND OTHER OFFICIAL CREDITORS

Background: The IMF is the key institution in international efforts to ensure continued availability of official financing on a scale sufficient to enable debtor countries to adopt orderly adjustment measures. Agreement has been reached on an increase in IMF resources, including a 47 percent increase in quota subscriptions (to $99 billion) and a revision/expansion of the General Agreement to Borrow (GAB) to deal with systemic threats. The U.S. and other countries are currently seeking the necessary legislative authority to implement the resource increase by November 30, 1983. Additionally, the monetary authorities of the major countries, in cooperation with the Bank for International Settlements (BIS), have provided short term "bridge financing" to selected countries, in situations involving system-wide dangers, to tide them over during negotiations with the IMF and other creditors. Discussions are underway seeking to develop an early-warning system of emerging debt problems and to provide a more organized mechanism of responding to emergency financing needs which threaten the system.

U.S. Position: We consider the IMF the centerpiece of international efforts to deal with global debt problems and strongly support the agreement to increase IMF resources. We are giving high priority to Congressional approval for U.S. participation in the increase in IMF quotas and GAB expansion (an additional $5.8 billion in the former to total $19 billion, and an increase of $2.7 billion in the latter to total $4.7 billion). The Senate Foreign Relations and Banking Committees have favorably reported the authorization and we hope to complete authorization and appropriations by the end of May. We also welcome the close cooperation of monetary authorities in dealing with emergency situations and believe that consideration should be given to a more organized means of responding to potential threats to the system.

DEBT RESTRUCTURING

Background: Some observers suggest that special or global forms of debt relief will be needed to keep major borrowers from repudiating international debt, or to prevent a failure of the world financial system.

U.S. Position: The U.S. has a broad-based strategy to deal with international debt problems. It includes all the key participants -- LDC borrowers and governments, governments in the developed world, commercial banks and the International Monetary Fund. The strategy has five key elements:

-- Most important is effective adjustment in the borrowing countries. While they must take steps immediately to put their economies back on a stable course, this adjustment, to be orderly and effective, will take a number of years to complete.

-- Continued availability of official balance of payments financing on a scale sufficient to help see troubled borrowers through this adjustment period. The key institution for this purpose is the International Monetary Fund. Thus, it is urgent that Congress enact the proposed increase in IMF resources.

-- The willingness of governments and central banks in lending countries to act quickly to respond to debt emergencies -- but only in extraordinary circumstances on a case-by-case basis.

-- Continued commercial bank lending to countries that are pursuing sound adjustment programs.

-- Resumption of economic growth and maintenance of an open trading system, so borrowers will be able to increase exports and improve their balance of payments positions.

This strategy has steered the international system through troubled waters in recent months and offers a reasonable prospect for achieving a satisfactory outcome in the future. Although the near term could be turbulent, medium-term prospects for improvement in debtors' financial positions (assuming a resumption in world growth) are quite good. A less balanced approach or one which emphasizes dramatic moves to restructure or even to forgive debt do not offer any better prospects and may actually contribute to greater uncertainty in the present and the near term.

UNCTAD VI AND THE NORTH/SOUTH DIALOGUE

Background: The sixth U.N. Conference on Trade and Developmen (UNCTAD VI) will take place in Belgrade, Yugoslavia, June 6-30 1983. It will be a major event in the continuing discussions between developed and developing countries on international economic issues. More than 100 countries, including the Unite States, are expected to attend. UNCTAD, established by the U.N. General Assembly in 1964, is concerned with trade and economic development issues of interest to the less developed countries (LDC's).

Many LDC's consider the international economic system biased i favor of developed countries and ineffective in promoting LDC development. They seek a restructuring of the international economic system and a redistribution of the world's wealth as outlined in their demands for a "New International Economic Order" (NIEO). They seek increased financial flows, transfers of technology, and a larger share of decision-making power in global financial institutions such as the International Monetary Fund and the World Bank. They want higher and more stable prices for their commodity exports, improved access to developed-country markets for their manufactured goods, and low-interest loans with a minimum of political and economic strings attached. The LDC's have sought U.N.-sponsored "Global Negotiations," envisaged as high-level, intergovernmental talks aimed at implementing the NIEO. The LDC caucus at the U.N. (the Group of 77) did not agree, however, to the proposals which the major industrialized countries developed at the 1982 Versailles Summit to provide a basis for such negotiations. The impasse increases the attention being given to the upcoming UNCTAD conference.

U.S. Position: LDC's are increasingly important to the United States as the international economic system becomes more interdependent. Problems of conservation, the environment, international terrorism, arms control, and population pressures, in addition to world economic issues, can be addressed effectively only if there is cooperation between the developing and developed countries. The United States has a major stake in helping LDC's achieve growth and stability:

-- They now receive 40 percent of U.S. exports, more than the European Common Market and Japan combined;

-- Of our top 20 trading partners, eleven are LDC's;

-- They provide many of our vital raw materials and energy requirements; and

-- U.S. private investment in the LDC's exceeds an estimated 150,000 million dollars.

Industrial nations have responded to the need for evolutionary change while preserving the fundamentals of a system that, over the last three decades, has promoted unprecedented economic growth. We favor continued evolution of this system in ways that will benefit everyone. Sudden changes in the rules for investment or financial transactions, or massive shifts in financial resources or trade practices will inhibit rather than promote overall economic activity. We hope that discussions at UNCTAD VI will take into account these realities, avoid confrontation, and focus on areas where progress has been and can be made.

The U.S. record in promoting the development of LDC's through both bilateral and multilateral efforts is good. Each year we provide more food assistance than all other countries combined and extend more official development assistance than any other country. Voluntary contributions to international aid activities by U.S. citizens are also significant. Private U.S. banks have provided large amounts of financing for projects in the LDC's. U.S. imports from the LDC's make an enormous and often underestimated contribution to development. Barriers to trade in U.S. markets are among the lowest in the world. The U.S. buys about one half of all the manufactured goods that non-OPEC (Organization of Petroleum Exporting Countries) LDC's export to industrialized countries, even though our market constitutes only one third of the total industrialized world market. In 1980, 51 percent of our imports from LDC's entered the United States duty-free.

The economic prosperity of the developing countries is clearly in the U.S. national interest, and we are particularly sensitive to the needs of the low-income countries. Nevertheless, while many of the poorest countries depend on us to help strengthen their economies and diversify their exports, the major responsibility for development lies with the developing countries themselves. Experience has shown that development is achieved when sound, market-oriented domestic economic policies are pursued, in a climate where private investment is encouraged and in a political atmosphere that fosters practical solutions to problems. If LDC's pursue such policies, they can benefit greatly from increased international trade and national development and investment. Moreover, the United States sees the key to national development and human progress in individual freedom, both political and economic. At the UNCTAD VI and in other North/South forums, the United States will advocate policies consistent with these principles.

5.

EAST-WEST ECONOMIC ISSUES

U.S. Policy: The global policy of the United States is to encourage trade. However, we realize that East-West trade cannot be divorced from overall Western political and security objectives. Our objectives in East-West economic relations include: 1) restricting strategic exports that would significantly enhance Soviet military capabilities; 2) reducing potential Western vulnerability to Soviet economic pressures; and 3) insuring that commercial links with the Soviet Union are consistent with current economic and political realities.

Controls on Trade with the USSR: Reflecting our concern over Soviet-inspired respression in Poland and in response to the Polish edict of martial law, trade sanctions against the Soviet Union were imposed in December 1981 and expanded in June 1982. On November 13, 1982, the President lifted certain sanctions regarding the sale to the USSR of oil and gas equipment and technology. Many of the Poland-related sanctions remain in place, including restrictions on port access by Soviet vessels, civil aviation privileges, fishing rights, and technical exchanges. Other export controls first imposed in the 1950s concerning defense-related and sensitive high technology products are still in effect for national security reasons.

Soviet actions in Afghanistan and Poland, the USSR's destabilizing actions in the developing world, and the Soviets' continuing arms build-up have caused the United States to review carefully the full range of East-West economic relations. We advocate maintaining East-West trade that is mutually beneficial and based on sound and prudent commercial policies. At the same time, we seek to restrict strategic exports and other trade and financial arrangements that can enhance Soviet and Warsaw Pact military and strategic capabilities.

Economic Relations with Eastern Europe: Regarding Eastern Europe, we recognize that each country has its own dynamics and U.S. policy is designed to take into account the economic, social, and political diversity among these countries. Western trade in strategic goods with the Warsaw Pact countries is controlled under existing multilateral procedures.

Western Initiatives: In November 1982, we agreed with our allies to study the strategic implications of our economic relations with the East, with emphasis on the need for a coordinated Western approach to common security needs, especially in the areas of natural resources, technology transfer, and credits.

Work on East-West studies arising from the November 1982 agreement is underway in various Western international institutions, including OECD, NATO, and COCOM, and is progressing at a rapid pace. In addition, the IEA has completed a study of global energy requirements and security. We believe that our allies share with us a fundamental recognition of the costs to our common security interests that can stem from the lack of a coordinated approach to East-West economic relations.