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# WITHDRAWAL SHEET

## Ronald Reagan Library

**Collection Name** MCMINN, DOUGLAS: FILES

**Withdrawer**

SMF 2/20/2008

**File Folder** FRANCE-INTERNAL US PREPARATIONS (9)

**FOIA**

S2007-081

**Box Number** 13

NOUZILLE

169

ID	Doc Type	Document Description	No of Pages	Doc Date	Restrictions
50872	CABLE	222146Z APR 82 <b>R 4/20/2010 M2007-081</b>	3	4/22/1982	B1
50873	CABLE	222240Z APR 82 <b>R 4/20/2010 M2007-081</b>	14	4/22/1982	B1
50900	CABLE	221642Z APR 82	4	4/22/1982	B1 B3
50874	CABLE	221531Z APR 82 <b>R 4/20/2010 M2007-081</b>	1	4/22/1982	B1
50875	CABLE	271949Z APR 82 <b>R 4/20/2010 M2007-081</b>	3	4/27/1982	B1
50876	MEMO	NAU TO CLARK RE CONCERNS ABOUT RECENT BUDGET DEVELOPMENTS <b>R 4/23/2010 NLRRM2007-081</b>	1	4/29/1982	B1
50897	LETTER	DRAFT TO SUMMIT HEADS OF STATE <b>R 4/20/2010 M2007-081</b>	3	5/1/1982	B1
50898	PAPER	JUNE SUMMITS: CONSULTATIONS GAME PLAN <b>R 4/20/2010 M2007-081</b>	3	ND	B1
50899	LETTER	DRAFT PRESIDENTIAL LETTER TO SUMMIT PARTICIPANTS <b>R 4/20/2010 M2007-081</b>	4	ND	B1

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WHITE HOUSE SITUATION ROOM

OUTGOING

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*File  
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OP IMMED  
DE WTE #2185 1122216  
O 222146Z APR 82  
FM THE WHITE HOUSE SITUATION ROOM

TO COL MIKE FRY ABOARD AF-2

~~SECRET~~ VIA AIR FORCE TWO WH02185

FROM: HENRY NAU

SECTION 01 OF 02

THE FOLLOWING IS TRANSMITTED FOR YOUR INFORMATION

REF: A. WHITE HOUSE 2171; B. STATE 97885; C. STATE 89853

1. REFERENCE PARAGRAPHS 2 AND 3 OF REFERENCE CABLE A, THE UNITED STATES HAS OFFERED AN ALTERNATIVE VIEW TO THAT PROVIDED IN SUMMIT MACROECONOMIC PAPER PREPARED BY UK. US COMMENTS ON THE UK PAPER ARE CONTAINED IN REFERENCE CABLE B. ALTERNATIVE US VIEW SENT TO OTHER SUMMIT COUNTRIES IN EARLY APRIL IS DEVELOPED IN REFERENCE CABLE C. REFERENCE CABLES B AND C ARE BEING TRANSMITTED SEPARATELY. UNFORTUNATELY, UK PAPER ITSELF IS TOO LONG TO TRANSMIT. US EMBASSY TOKYO MAY HAVE IT.

DECLASSIFIED

NLRR 107-081 #50872

BY CL NARA DATE 11/20/10

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2. KEY POINTS OF DIFFERENCE BETWEEN US AND UK PERSPECTIVES  
INCLUDE:

- US STRESSES INTERNATIONAL ASPECTS OF ECONOMIC POLICY --  
OPEN MARKETS FOR BOTH GOODS AND CAPITAL -- WHILE UK  
PAPER ADDRESSES DIRECTLY DOMESTIC POLICY DIFFERENCES.
  
- US SEEKS TO CONTAIN DOMESTIC POLICY DIFFERENCES NOT  
BY PRESCRIBING DOMESTIC POLICY ACTIONS BUT BY  
EMPHASIZING CONSEQUENCES OF DIVERGING DOMESTIC  
POLICIES FOR INTERNATIONAL STABILITY OF EXCHANGE  
RATES AND TRADING RELATIONS.
  
- US VIEW EMPHASIZES AGREEMENT ON LONG-TERM POLICY  
OBJECTIVES OF STABLE, VIGOROUS NON-INFLATIONARY  
GROWTH, REDUCED <sup>un</sup>EMPLOYMENT, AND GREATER STABILITY OF  
EXCHANGE RATES AND RECOGNIZES THAT POLICIES TO  
ACHIEVE THESE OBJECTIVES WILL DIFFER DEPENDING ON  
EACH COUNTRY'S UNIQUE ECONOMIC AND POLITICAL CIRCUM-  
STANCES.
  
- US DOES NOT BELIEVE IT IS USEFUL TO MIX IN DOMESTIC  
POLICY DEBATES WITHIN EACH COUNTRY OR TO MAKE AGREE-  
MENTS AT SUMMITS ON QUOTE RIGHT BALANCE OF POLICIES  
BETWEEN COUNTRIES UNQUOTE (QUOTATION FROM UK PAPER).  
PURPOSE OF SUMMITS IS TO ENLIGHTEN AND ENLARGE  
PERSPECTIVE FROM WHICH EACH SUMMIT COUNTRY RESOLVES  
ITS OWN DOMESTIC POLICY DEBATES.

3. THERE IS CURRENTLY A LIVELY DOMESTIC DEBATE GOING ON IN  
JAPAN CONCERNING DOMESTIC ECONOMIC POLICY. SOME GROUPS  
CRITICAL OF SUZUKI ARGUE THAT HIS POLICIES OF REDUCING THE  
BUDGET DEFICIT AND RELYING ON LOW INTEREST RATES TO STIMULATE  
THE ECONOMY ARE NOT WORKING. THEY URGE HIGHER PUBLIC EXPENDITURES  
AND TAX CUTS TO STIMULATE THE ECONOMY, INCREASE DEMAND WITHOUT

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EXPANDING EXPORTS, RAISE THE DEMAND FOR CAPITAL AND HENCE INCREASE INTEREST RATES AND THE VALUE OF THE YEN. THE VICE PRESIDENT WOULD DO WELL TO STAY OUT OF THIS DOMESTIC DEBATE, STRESSING INSTEAD THE NEED FOR JAPAN TO CONTINUE TO LIBERALIZE ITS INTERNATIONAL POLICIES BY FURTHER OPENING ACCESS TO THE JAPANESE CONSUMER AND CAPITAL MARKETS.

4. NO FOREIGN GOVERNMENT KNOWS YET ABOUT SHULTZ MISSION. HENCE NO MENTION OF THIS VISIT SHOULD BE MADE.

0514

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SIT801 TOR: 112/2230Z

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OP IMMED  
DE WTE #2186 1122230  
O 222240Z APR 82  
FM THE WHITE HOUSE SITUATION ROOM

TO COL MICHAEL FRY ABOARD AF-2

~~C O N F I D E N T I A L~~ VIA AIR FORCE TWO WH02186

FROM: HENRY NAU

SECTION 02 OF 02

REF: TAB B. STATE 97885

E.O. 12065: GDS 4/12/88 (CASSE, MARSHALL)  
TAGS: ECON

SUBJECT: VERSAILLES SUMMIT: COMMENTS ON DRAFT UK PAPER

1. (~~CONFIDENTIAL~~ - ENTIRE TEXT)

2. EMBASSY IS REQUESTED TO PASS FOLLOWING LETTER FROM  
CEA, MURRAY L. WEIDENBAUM TO SIR DOUGLAS WASS, PERMANENT  
SECRETARY; H.M. TREASURY AS SOON AS POSSIBLE:

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3. BEGIN TEXT

DEAR DOUGLAS:

I HAVE READ CAREFULLY THE MACROECONOMIC PAPER THE UNITED KINGDOM HAS DRAFTED FOR THE VERSAILLES SUMMIT AND FOUND IT VERY USEFUL. INDEED, ALTHOUGH THE PAPER DRAWS ON THE ANALYSIS AND FORECASTS WHICH THE OECD SECRETARIAT HAS PREPARED TO SUPPORT ITS QTE DIFFERENTIATED STRATEGY UNQTE POLICY, PROPOSALS, I BELIEVE IT WOULD HAVE BEEN DIFFICULT TO NEGOTIATE AN INTERNATIONALLY DRAFTED PAPER MORE CONGENIAL TO THE VIEWPOINT OF THE ADMINISTRATION THAN THE ONE YOU HAVE PUT FORTH.

THERE ARE, HOWEVER, SEVERAL OBSERVATIONS, COMMENTS AND SUGGESTED REDRAFTING WHICH I SUBMIT TO YOUR CONSIDERATION. I TRUST THESE WILL HELP IN REVISING THE PAPER.

I AM LOOKING FORWARD TO MEETING YOU AGAIN AT THE EPC MEETING. I HOPE WE WILL HAVE THE TIME TO DISCUSS MY OBSERVATIONS TO THE PAPER AS WELL AS YOUR REACTIONS.

WITH MY WARMEST REGARDS.

YOURS SINCERELY,

MURRY L. WEIDENBAUM

BEGIN ATTACHMENT:

U. K. MACROECONOMIC PAPER FOR THE VERSAILLES SUMMIT

GENERAL COMMENTS

IN QTE STRATEGY FOR THE FUTURE UNQTE THE MAIN ARGUMENT

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REFLECTS CURRENT THINKING WITHIN THE OECD SECRETARIAT. SECRETARY GENERAL VAN LENNEP HAS PROPOSED A QTE DIFFERENTIATED APPROACH UNQTE TO THE RESOLUTION OF THE TWIN PROBLEM OF HIGH INFLATION AND HIGH UNEMPLOYMENT IN THE WORLD. WITHIN THIS APPROACH THE UNITED STATES IS CRITICIZED FOR RELYING TOO HEAVILY ON MONETARY POLICY TO CONTROL INFLATION, WHILE FAILING TO CONTROL BUDGET DEFICITS. GERMANY, ON THE OTHER HAND, HAVING LOWERED ITS INFLATION RATE, CAN NOW SWITCH TO A MORE STIMULATIVE POLICY. AND JAPAN SHOULD UNDERTAKE EXPANSIONARY FISCAL POLICY AS WELL AS LETTING THE YEN APPRECIATE TO REDUCE THE CURRENT ACCOUNT SURPLUS WHICH IS A SIGNIFICANT FACTOR IN THE RISE OF PROTECTIONISM IN THE WORLD.

AN ALTERNATIVE VIEW TO THE OECD DIFFERENTIATED APPROACH HAS BEEN PUT FORTH IN THE DOCUMENT QTE INTERNATIONAL ECONOMIC COOPERATION INITIATIVE UNQTE PREPARED BY THE U.S. GOVERNMENT, ESPECIALLY PAGES 3-5 WHICH STRESS THE BENEFITS OF CONVERGENT LONG-TERM POLICIES.

SPECIFIC COMMENTS

1. THE FORECASTS USED APPEAR TO BE BASED ON EARLY ACCESS TO THE OECD PROJECTIONS WHICH ARE CURRENTLY IN PROGRESS. OUR NEW WORLD OUTLOOK HAS NOT YET BEEN COMPLETED, BUT IT LOOKS LIKELY THAT OUR GROWTH NUMBER WILL BE SOMEWHAT

MORE BUOYANT.

2. ON PAGE 9, IT WOULD BE APPROPRIATE TO ADD SOME CONSIDERATIONS ABOUT CORPORATE SAVINGS AND CAPITAL INFLOWS. SUGGESTED PHRASING:

-- IT MUST BE RECOGNIZED, HOWEVER, THAT WHILE PERSONAL SAVINGS CONSTITUTE THE MAIN SOURCE OF LOANABLE FUNDS, THE

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DEGREE OF EASE WITH WHICH BUDGET DEFICITS CAN BE FINANCED DEPENDS ALSO ON THE SIZE OF CORPORATE SAVINGS AND THE INFLOW OF CAPITAL FROM ABROAD.

3. ON PAGE 10, AFTER THE FIRST PARAGRAPH I WOULD ADD: HOWEVER, THE CORRELATION BETWEEN INTEREST RATES AND EXCHANGE RATE MOVEMENTS SHOULD NOT BE EXAGGERATED. THERE WERE PERIODS DURING THE PAST 12 MONTHS CHARACTERIZED BY DIVERGENT MOVEMENTS IN INTEREST RATE DIFFERENTIALS AND EXCHANGE RATES. THIS WAS ESPECIALLY, BUT NOT EXCLUSIVELY, TRUE FOR THE FRENCH FRANC.

4. PAGE 11, LINE 1. I WOULD REPLACE QTE U. S. UNQTE WITH QTE EACH COUNTRY'S UNQTE TO REFLECT THE SYMMETRY OF RESPONSES. AT THE BOTTOM OF THE PAGE THE FIGURE OF 20 PERCENT IS NOT CONSISTENT WITH THE DATA SHOWN IN TABLE

9.

5. PAGE 17. IS THE SENTENCE BEGINNING WITH QTE THE COUNTERPART MAY BE FOUND...UNQTE CONSISTENT WITH THE DATA SHOWN IN TABLE 2>

6. ON PAGE 20, THE FIRST TWO SENTENCES LINK THE WORLD'S ECONOMIC SITUATION TO THE U.S. BUDGET DIFICIT. THERE SHOULD BE MORE SYMMETRY: OTHER COUNTRIES ARE ALSO IMPORTNAT. THE INCREASE IN PUBLIC SECTOR DEFICITS IS WORLDWIDE.

7. THE FOURTH PARAGRAPH ON PAGE 24 IS PROBLEMATIC. SMOOTHING OUT EXCHANGE RATE FLUCTUATIONS DOES NOT NECESSARILY LEAD TO SMOOTHER FLUCTUATIONS IN OUTPUT GROWTH RATES AND INFLATION RATES.



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END TEXT. EAGLEBURGER

REF: TAB C. STATE 898653

USEC, USOECD

E. O. 12065: GDS 4/2/88 (HORMATS, R. D.)

TAGS: ECON, EFIN

SUBJECT: VERSAILLES SUMMIT: NOTE ON POLICY COORDINATION

1. ~~CONFIDENTIAL~~ - ENTIRE TEXT.

2. FOR LONDON: EMBASSY IS REQUESTED TO DELIVER THE FOLLOWING LETTER FROM BOB HORMATS TO SIR ROBERT ARMSTRONG ALONG WITH A COPY OF THE TEXT IN PARA. 4.

BEGIN TEXT.

DEAR ROBERT:

FOLLOWING OUR DISCUSSION AT THE LAST MEETING OF PERSONAL REPRESENTATIVES, BERYL SPRINKEL HAS UNDERTAKEN TO DEVELOP SOME THOUGHTS ON THE SCOPE AND OBJECTIVES FOR ENHANCED ECONOMIC POLICY COOPERATION. TO BE CANDID, WE HAVE BEEN SOMEWHAT HESITANT OVER THE PAST YEAR OR SO TO SPEAK IN TERMS OF POLICY COORDINATION BECAUSE OF THE SHORT-TERM "FINE TUNING" CONNOTATIONS WHICH OFTEN ATTACH TO THAT CONCEPT.

IN THE ATTACHED NOTE, BERYL HAS DEVELOPED A CONCEPT TO ADDRESS THE LONGER TERM AND MORE FUNDA-

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MENTAL APPROACH TO ECONOMIC POLICY WHICH ALL OUR GOVERNMENTS NOW SEEM TO BE TAKING.

ALTHOUGH YOUR PAPER HAS ALREADY GONE WELL BEYOND FIRST DRAFTS, I HOPE OUR IDEAS ARE HELPFUL IN YOUR EFFORTS. MURRAY WEIDENBAUM INFORMS ME THAT HE WILL ALSO BE SENDING DOUGLAS WASS SOME COMMENTS ON THE DRAFT DISCUSSED LAST SATURDAY AT THE EPC BUREAU MEETING.

WE WILL BE INTERESTED TO HEAR YOUR REACTION TO THESE IDEAS -- WHICH AT THIS POINT ARE QUITE INFORMAL -- AT OUR NEXT MEETING IN APRIL, AT WHICH TIME WE WILL ALSO HAVE THE PLEASURE OF DISCUSSING YOUR OVERALL MACROECONOMIC PAPER.

I AM SENDING A COPY OF THIS LETTER AND THE ATTACHED NOTE TO OUR COLLEAGUES. I LOOK FORWARD TO SEEING YOU AT RAMBOUILLET.

WARM REGARDS, BOB HORMATS END TEXT.

3. FOR BONN, OTTAWA, PARIS, ROME, TOKYO, USEC: EMBASSY REQUESTED TO PROVIDE A COURTESY COPY OF HORMATS-ARMSTRONG LETTER AND ATTACHMENT TO HOST GOVERNMENT PERSONAL REPRESENTATIVE FOR VERSAIL'ES SUMMIT. INDICATE THAT WE WILL BE PLEASED TO RECEIVE ANY REACTIONS/COMMENTS ON THE ATTACHMENT.

4. BEGIN TEXT OF ATTACHMENT. THE OPPORTUNITIES FOR INTERNATIONAL ECONOMIC COOPERATION: ALL SUMMIT COUNTRIES SHARE THE SAME LONG-TERM GOAL OF STABLE, VIGOROUS, NON-INFLATIONARY GROWTH, REDUCED UNEMPLOYMENT AND GREATER STABILITY OF EXCHANGE RATES. THE TASK IS TO TRANSLATE

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THIS AGREEMENT ON OBJECTIVES INTO EFFECTIVE POLICIES. IN ADDITION TO THE DIRECT BENEFITS, SUCCESS ON THIS FRONT IS ESSENTIAL FOR EFFECTIVE COOPERATION ON OTHER POLICIES TO EXPAND TRADE AND DEVELOPMENT.

THE DOMESTIC ECONOMIC POLICIES OF EACH NATION REFLECT THE INFLUENCE OF ITS PARTICULAR HISTORICAL, CULTURAL, AND INSTITUTIONAL SITUATION. IN ADDITION, COUNTRIES VARY WIDELY, IN SIZE AND NATURAL ENDOWMENT, HAVE DIVERSE ANALYTICAL CONCEPTS AND THEORIES, AND OPERATE WITH DIFFERING SOCIAL STRUCTURES. THUS, NATIONAL SOVEREIGNTY WITH RESPECT TO ECONOMIC POLICY IS, AND WILL CONTINUE TO BE, A BASIC FEATURE OF THE INTERNATIONAL ECONOMIC SYSTEM. BUT WE MUST ALL RECOGNIZE THE CONSEQUENCES OF OUR POLICY DIFFERENCES. THE TRADE AND FINANCIAL LINKAGES OF AN INTERDEPENDENT WORLD SEVERELY LIMIT THE ABILITY OF ANY NATION TO INSULATE ITSELF FROM THE IMPACT OF THE ECONOMIC POLICIES AND PERFORMANCE OF OTHERS AND REQUIRE THAT WE RECOGNIZE THE LIMITS ON HOW FAR WE CAN DIFFER IN DOMESTIC POLICY.

MANY CURRENT ECONOMIC PROBLEMS ARE THE RESULT OF BASIC DIVERGENCES IN OUR ECONOMIC POLICIES. WE NOW HAVE TWO CHOICES: TO CORRECT THE UNDERLYING DIVERGENCIES, OR TO TRY TO MASK THEIR SYMPTOMS BY SUPPRESSING MARKET SIGNALS. THE UNITED STATES PREFERS THE FORMER. WE BELIEVE THAT WHERE EXCHANGE MARKETS ARE UNSTABLE DUE TO DIFFERING ECONOMIC POLICIES AND PERFORMANCE, EXCHANGE MARKET INTERVENTION OR CAPITAL CONTROLS CANNOT SUCCEED IN ELIMINATING THE BASIC DIVERGENCES. SIMILARLY, EFFORTS

TO COORDINATE INTEREST RATES, IN DISREGARD OF UNDERLYING MARKET FORCES, WOULD BE FUTILE.

IT IS CLEAR, HOWEVER, THAT NOT ALL POLICIES AND OBJECTIVES ARE EQUALLY SUSCEPTIBLE TO INTERNATIONAL

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COOPERATION. THERE ARE LIMITS TO THE SCOPE FOR DETAILED COORDINATION OF POLICIES. RECOGNITION OF THESE BOUNDS IS NECESSARY TO ASSURE THE FULL POTENTIAL OF COOPERATIVE EFFORTS AND TO AVOID ACTIONS WHICH IMPEDE ACHIEVEMENT OF COMMON LONG-TERM GOALS. WE MUST DISTINGUISH BETWEEN THOSE AREAS WHERE EXPLICIT COORDINATION OF SPECIFIC ACTIONS IS IMPERATIVE, AND THOSE IN WHICH IT IS NECESSARY TO ACHIEVE COMPATIBILITY OF OVERALL POLICY APPROACHES.

THE GENERAL POLICY ISSUES WHICH HAVE INTERNATIONAL IMPLICATIONS CAN BE GROUPED INTO THREE CATEGORIES:

(1) AREAS WHERE THE MARKET MECHANISM WOULD NOT BE EXPECTED TO YIELD THE OPTIMAL RESULT OR WHERE DOMESTIC POLICIES HAVE SIGNIFICANT INTERNATIONAL EXTERNALITIES. IN THESE AREAS SUSTAINED EFFORTS BY SOME COUNTRIES CLEARLY BENEFIT OTHERS WHOSE CONTRIBUTION IS LESS THAN COMMENSURATE WITH THEIR ECONOMIC RESOURCES. WHILE A NATION WHICH DOES NOT CONTRIBUTE TO THE JOINT EFFORT WOULD NEVERTHELESS BENEFIT FROM THE EFFORT OF OTHERS, THE TOTAL BENEFIT TO THE GROUP IS REDUCED. A DEFICIENT PERFORMANCE BY SOME NATIONS NEGATES THE EFFORTS OF THE OTHERS OR, AT LEAST, REDUCES THEIR EFFECTIVENESS.

THESE ISSUES OFTEN EXTEND INTO AREAS BEYOND THAT OF DIRECT ECONOMIC POLICY, BUT HAVE SIGNIFICANT EFFECTS ON ECONOMIC PERFORMANCE. INCLUDED ARE POLICIES CONTRIBUTING TO MUTUAL DEFENSE, AND THE EXPANSION OF TRADE AND DEVELOPMENT

THROUGH FOREIGN AID. THE COMMON OBJECTIVE ALLOWS A CLEAR DETERMINATION OF THE ROLES OF INDIVIDUAL NATIONS AND ALLOWS FOR SPECIFIC GUIDELINES FOR THE CONTRIBUTION OF EACH COUNTRY. DETAILED COOPERATION IS IMPERATIVE IN ACHIEVING MUTUAL GOALS IN THESE AREAS.

(2) POLICIES WHICH INTERFERE WITH THE OPERATION OF

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COMPETITIVE MARKETS. THESE INVOLVE NEO-MERCANTILIST ACTIONS WHICH ATTEMPT TO TRANSFER PRODUCTIVE FACILITIES FROM OTHER COUNTRIES OR EFFORTS TO PROTECT DOMESTIC ACTIVITY FROM EXTERNAL COMPE-ITIVE PRESSURES. INCLUDED, AMONG OTHERS, ARE CERTAIN: EXPORT PROMOTION SCHEMES, TAX AND CREDIT PREFERENCES FOR EXPORTERS; TAX HOLIDAYS FOR FOREIGN INVESTORS; DIRECT CONTROLS ON PRICES, CREDIT ALLOCATION AND CAPITAL FLOWS; AND SYSTEMATIC INTERVENTION WHICH

DISTORTS EXCHANGE MARKETS.

THE USE OF THESE POLICIES, IF UNCHECKED, WOULD RESULT IN ENORMOUS DAMAGE TO THE ENTIRE COMMUNITY OF NATIONS. CONSEQUENTLY, THE CASE FOR EXPLICIT INTERNATIONAL COORDINATION, IN FACT HARMONIZATION, OF EFFORTS TO ELIMINATE ANTI-COMPETITIVE POLICIES IS OVERWHELMING.

(3) THE BROAD RANGE OF DOMESTIC MACROECONOMIC POLICIES, WHICH AFFECT OTHER NATIONS THROUGH THE ECONOMIC INTERDEPENDENCE OF NATIONS. THIS AREA PRESENTS THE MOST DIFFICULT PROBLEM FOR INTERNATIONAL COORDINATION BUT IT IS ALSO A MAJOR SOURCE OF CURRENT ECONOMIC DIFFICULTIES.

THESE POLICY DIFFERENCES AMONG NATIONS AFFECT FLOWS OF GOODS, SERVICES, AND CAPITAL AND OFTEN ARE THE PRIMARY SOURCE OF INSTABILITY IN EXCHANGE MARKETS. HOWEVER, NO PRECISE SHORT-RUN COORDINATION, IN THE SENSE OF SYNCHRONIZED TIMING OR INTENSITY OF THESE POLICIES IS LIKELY TO BE EFFECTIVE. INSTEAD, ESTABLISHING A UNIVERSAL COMMITMENT TO DISCUSS AND RELATE BASIC DOMESTIC POLICIES TO LONG-TERM OBJECTIVES IS NECESSARY. WHILE THE TIMING AND INTENSITY WITH WHICH THESE POLICIES ARE IMPLEMENTED WOULD VARY ACROSS NATIONS, THE CRITICAL GOAL IS THE COMMITMENT OF ALL SUMMIT NATIONS TO VIEW THE CONSEQUENCES OF THEIR IMMEDIATE ACTIONS OVER A LONGER-TERM PERSPECTIVE AND TO MINIMIZE FUNDAMENTAL DIVERGENCIES AMONG NATIONS.

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THE SECULAR POLICIES OF INDIVIDUAL COUNTRIES DEFINE THE ENVIRONMENT IN WHICH THE INTERNATIONAL ECONOMIC SYSTEM OPERATES. ESTABLISHING THE PROSPECT FOR SUSTAINED NON-INFLATIONARY GROWTH IS A NECESSARY CONDITION FOR EFFICIENT AND STABLE EXCHANGE MARKETS.

THE BENEFITS OF CONVERGENT LONG TERM POLICIES: THERE MUST INHERENTLY BE A GREAT RIFT BETWEEN NATIONS WHICH ARE WILLING TO TOLERATE DOMESTIC INFLATION AS THEY PURSUE THEIR INTERNAL SOCIAL GOALS, AND OTHER NATIONS WHICH ARE COMMITTED TO MAINTAINING OR ACHIEVING GENERAL PRICE STABILITY. NATIONS WITH INFLATIONARY POLICIES HAVE TO RECOGNIZE THE EXCHANGE RATE AND BALANCE OF PAYMENTS CONSEQUENCES OF THEIR POLICIES. IF THEY DO NOT, THEY ARE LED INEVITABLY TO INSTITUTE CAPITAL CONTROLS, TRADE RESTRICTIONS AND EXCHANGE MARKET INTERVENTION. ALSO, THIS FUNDAMENTAL POLICY IMBALANCE LEADS TO PRESSURE ON OTHER NATIONS TO ADOPT ACCOMMODATIVE DOMESTIC POLICIES, MISDIRECTIONING THE SPIRIT OF INTERNATIONAL COOPERATION TO SHORT-RUN FINE TUNING OF AGGREGATE DEMAND.

EFFORTS AT INTERNATIONAL COOPERATION SHOULD FOCUS ON ESTABLISHING THE COMMON RESOLVE TO REDUCE DOMESTIC INFLATION AND TO PROMOTE REAL ECONOMIC GROWTH THROUGH INCREASED OPPORTUNITIES FOR PRODUCTIVE INVESTMENT. THE CHALLENGE TO THIS RESOLVE CONTINUES TO ARISE FROM THE PERCEIVED CONFLICT BETWEEN EACH COUNTRY'S IMMEDIATE DOMESTIC OBJECTIVES AND OUR MUTUAL LONG-TERM INTERESTS. SHORT-TERM CONDITIONS ARE IMPORTANT AND DESERVE ATTENTION, BUT THAT CONCERN SHOULD BE BALANCED BY A VIEW OF THE LONGER-TERM CONSEQUENCES OF IMMEDIATE POLICIES. IN FACT, MANY CURRENT PROBLEMS ARE ONLY THE IMMEDIATE MANIFESTATION OF LONG-TERM CONDITIONS WHICH STIMULATE INFLATION, AND DISCOURAGE REAL ECONOMIC GROWTH. THUS, THE ABILITY OF EACH OF US TO DEAL WITH SHORT-TERM PROBLEMS EFFECTIVELY

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IS ENHANCED GREATLY BY PRIOR COMMITMENT OF ALL OF US TO SECULAR PRICE STABILITY AND SUSTAINABLE ECONOMIC GROWTH.

SECULAR POLICIES TO ASSURE GENERAL PRICE STABILITY AND TO ENCOURAGE REAL ECONOMIC GROWTH ARE THE ONLY METHOD FOR ACHIEVING PERMANENT EXPANSION OF JOB OPPORTUNITIES, LOW INTEREST RATES, AND COMPETITIVENESS IN INTERNATIONAL MARKETS. A POLICY OF REALLOCATING RESOURCES AWAY FROM CURRENT CONSUMPTION BY BOTH THE GOVERNMENT AND THE PRIVATE SECTORS, AND TOWARDS LONG-LIVED PRODUCTIVE ASSETS IS, BY DEFINITION, A POLICY FOR LOWERING REAL RATES OF INTEREST AND STIMULATING GROWTH. THE AREAS FOR INCREASED ATTENTION AND DISCUSSION ARE:

(1) MONETARY DISCIPLINE. WHILE THERE ARE DIFFERING VIEWS ON THE SOURCES OF INFLATION, ONE OF THE FEW ECONOMIC CERTAINTIES IS THAT INFLATION CAN PERSIST ONLY WHERE IT IS ACCOMMODATED BY EXCESSIVE MONETARY EXPANSION. NATIONS WHICH EXPERIENCE INFLATION WILL HAVE TO REDUCE THE TREND RATE OF MONETARY EXPANSION. EACH NATION MUST DECIDE THE SPEED OF THIS ADJUSTMENT, RECOGNIZING THAT INTERNATIONAL DIFFERENCES IN THE PATHS TO LOWER INFLATION WILL BE REFLECTED IN EXCHANGE AND CAPITAL MARKETS.

(2) BUDGET DISCIPLINE. INCREASING THE SUSTAINABLE PACE OF REAL ECONOMIC GROWTH REQUIRES THAT THE BURDEN OF FINANCING GOVERNMENT SPENDING MUST BE SHIFTED AWAY FROM PRODUCTION, WORK AND CAPITAL FORMATION, TOWARD CONSUMPTION AND LEISURE ACTIVITY. THIS INCLUDES CONCERTED EFFORT TO REDUCE THE BURGEONING CREDIT DEMANDS OF GOVERNMENT WHICH RESULT FROM PERSISTENT BUDGET DEFICITS. ALSO, THE INCIDENCE OF TAXATION SHOULD BE SHIFTED AWAY FROM PRODUCTION ACTIVITY AND THE ACCUMULATION OF CAPITAL.



## WHITE HOUSE SITUATION ROOM

OUTGOING

PAGE 12 OF 14 THE WHITE HOUSE SIT 2186 DTG: 222240Z APR 82 PSN: 051811

(3) INTERNAL FLEXIBILITY. DIFFERENCES WITHIN THE PRIVATE SECTOR IN THE ABILITY TO ADJUST TO ECONOMIC SHOCKS CAN CREATE SEVERE INTERNAL DISRUPTIONS, WHICH PLACE STRAIN ON THE DISCIPLINE OF THE CENTRAL GOVERNMENT. WILLINGNESS OF GOVERNMENT TO PROTECT EXISTING INDUSTRIES, FIRMS, AND JOBS WHEN THEY FALL VICTIM TO COMPETITIVE FORCES IS THE SOURCE OF CONSIDERABLE INTERNAL RIGIDITY. PROTECTION IN ONE COUNTRY INEVITABLY LEADS TO PRESSURE FOR RETALIATION BY TRADING PARTNERS.

PROBLEMS OF THE TRANSITION TO LESS INFLATION AND FASTER GROWTH: REVERSING THE TREND OF STAGFLATION IS NOT A QUICK OR PAINLESS PROCESS. THE IMMEDIATE BURDEN IS REAL, AND IS SUBSTANTIALLY INCREASED WHEN THE EFFORT TO

IMPLEMENT LONGER TERM POLICIES IS HALF-HEARTED. HOWEVER, THE ALTERNATIVE IS A STEADY EROSION OF STANDARDS OF LIVING FOR MOST NATIONS, INCREASED INTERNATIONAL TENSIONS, AND A DECREASE IN ABILITY TO RESIST EXTERNAL ECONOMIC, POLITICAL AND MILITARY THREATS.

THE GREATEST IMPEDIMENT TO THE ESTABLISHMENT OF LONG-TERM POLICIES TO REDUCE INFLATION AND STIMULATE GROWTH IS THE LINGERING PRESUMPTION OF A LASTING TRADE-OFF BETWEEN INFLATION AND UNEMPLOYMENT. HOWEVER, THE EXPERIENCE OF MANY NATIONS OVER THE PAST DECADE SHOWS THE SACRIFICE OF SOUND LONG-TERM POLICIES FOR THE PURPOSE OF SUPPORTING DOMESTIC EMPLOYMENT HAS LED ONLY TO BOTH MORE INFLATION AND UNEMPLOYMENT. INFLATION AND REAL ECONOMIC GROWTH ARE ULTIMATELY INCOMPATIBLE.

HIGH AND VARYING INFLATION IMPOSES COSTS ON A SOCIETY BY REDUCING STANDARDS OF LIVING IN THE FUTURE. THUS, THE IMMEDIATE TEMPORARY COSTS THAT RESULT FROM IMPOSING MONETARY DISCIPLINE SHOULD BE WEIGHED AGAINST THE PERMANENT LOSSES OF OUTPUT AND EMPLOYMENT WHICH ARE

WHITE HOUSE SITUATION ROOM

OUTGOING

PAGE 13 OF 14 THE WHITE HOUSE SIT 2186 DTG: 222240Z APR 82 PSN: 051811

CERTAIN TO RESULT FROM A FAILURE TO ACT. IN AN OPEN INTERNATIONAL SYSTEM THE PROSPECT OF THESE FUTURE LOSSES WILL BE REFLECTED IN A STEADY DEPRECIATION OF THE DOMESTIC CURRENCY AND A LOSS OF COMPETITIVENESS TO NATIONS WHICH DEMONSTRATE A STRONGER COMMITMENT TO PRICE STABILITY.

ESTABLISHING THE CREDIBILITY OF AN ANTI-INFLATIONARY POLICY IS CRUCIAL TO REDUCING THE TRANSITION COSTS. THIS REQUIRES A DEMONSTRATED COMMITMENT TO MONETARY DISCIPLINE, AVOIDING THE TEMPTATION TO SACRIFICE MONETARY CONTROL, EVEN TEMPORARILY, TO THE IMMEDIATE PRESSURES OF CONCERN ABOUT INTEREST RATES AND EXCHANGE RATES. A VARIETY OF

FACTORS AFFECT INTEREST AND EXCHANGE RATES IN THE SHORT RUN, NOT THE LEAST OF WHICH IS CONCERN ABOUT THE COMMITMENT OF MONETARY AUTHORITIES TO LONG-TERM CONTROL OF MONEY GROWTH. FREQUENT, SYSTEMATIC INTERVENTION IN BOTH DOMESTIC AND INTERNATIONAL MARKETS AGGRAVATES THOSE FEARS. COUNTRIES WHICH HAVE ESTABLISHED SOME DEGREE OF MONETARY DISCIPLINE HAVE BEEN ABLE TO MAINTAIN REAL GROWTH -- AND THEIR COMMITMENT TO MAINTAIN CONTROL HAS GIVEN THEM AN ADVANTAGE IN ABSORBING ECONOMIC SHOCKS.

DURING THE TRANSITION IT IS UNLIKELY THAT THE LONG-TERM POLICIES OF VARIOUS NATIONS WOULD BE PERFECTLY IN PHASE. THE CREDIBILITY OF POLICY WOULD VARY FROM COUNTRY TO COUNTRY, AS WOULD THE RELATIVE INTENSITY OF THE POLICY ACTIONS. THIS SITUATION WOULD BE EXPECTED TO YIELD TEMPORARY IMBALANCES IN BOTH DOMESTIC AND INTERNATIONAL

MARKETS, AS EXPECTATIONS ADJUSTED AT VARYING RATES. THESE TRANSITORY DISRUPTIONS CAN BE REDUCED, BUT NOT AVOIDED ENTIRELY.

THE MAGNITUDE AND DURATION OF TRANSITIONAL PROBLEMS IS INFLUENCED GREATLY BY PUBLIC PERCEPTION, BOTH AT HOME

WHITE HOUSE SITUATION ROOM

OUTGOING

PAGE 14 OF 14 THE WHITE HOUSE SIT 2186 DTG: 222240Z APR 82 PSN: 051811

AND ABROAD, OF GOVERNMENT'S COMMITMENT TO LONG-TERM POLICIES. EXPEDIENT ACTION, IN THE FORM OF STIMULUS TO DEMAND AND INTERVENTION IN MARKETS, IS A CLEAR SIGNAL OF A LACK OF THAT COMMITMENT. IRONICALLY, SHORT-TERM EFFORTS TO SUPPRESS THE TRANSITIONAL EFFECTS OF ADJUSTMENT TO NONINFLATIONARY PRO-GROWTH TRENDS CAN BE EXPECTED TO WORSEN THE IMMEDIATE ECONOMIC SITUATION. THE SAME HOLDS FOR EFFORTS BY A GOVERNMENT TO AVOID THE IMMEDIATE DOMESTIC CONSEQUENCES OF THE ADOPTION BY OTHER NATIONS OF LONG-TERM POLICIES WHICH ARE MORE CREDIBLE THAN ITS OWN.

IN SUMMARY, INTERNATIONAL ECONOMIC PROBLEMS HAVE BEEN AGGRAVATED BY A FAILURE TO ACHIEVE THE COMMON GOAL OF NON-INFLATIONARY ECONOMIC GROWTH. DIVERGENT LONG-TERM POLICIES ARE REFLECTED IN VOLATILITY OF CURRENT EXCHANGE MARKETS AND NEEDLESS FLUCTUATIONS IN ECONOMIC ACTIVITY. THIS SITUATION REQUIRES MORE EMPHASIS ON LONG-TERM POLICY AND LESS ON SYNCHRONIZATION OF SHORT-TERM AGGREGATE DEMAND PROGRAMS WITHIN EACH NATION. THE POTENTIAL BENEFITS ARE ENORMOUS AND ARE MEASURED IN TERMS OF MORE JOBS, LOWER AND LESS VARIABLE INTEREST RATES, STABLE PRICES AND ELIMINATION OF THE MAJOR FORCE BEHIND VOLATILITY OF EXCHANGE RATES. END TEXT. HAIG  
3474

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PAGE 01 BRUSSELS 5715 DTG: 221531Z APR 82 PSN: 050999  
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JAPAN WERE ONLY TWO COUNTRIES CONCERNED THAT HAVE NOT GIVEN A CLEAR AND INDEPENDENT VIEW.)

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WHSR COMMENT: PRES TRIP

4. VAN YPERSELE PLANS TO BE AT SHERPA MEETING IN RAMBOUILLET THIS WEEKEND.

WHTS ASSIGNED DISTRIBUTION:  
SIT: WHLR TYSN SITT MCM RENT EOB  
EOB:

5. EMBASSY HAS PASSED TO VAN YPERSELE COPIES OF US DISCUSSION PAPERS WITHOUT ANY REQUEST FOR COMMENT (STATE 89852, 92598, 93421, 97381, 101480, 101637). WE HAVE SAID NOTHING TO HIM ABOUT PARALLEL MEETING THIS WEEKEND ON REDUCTION OF EXPORT CREDITS TO USSR.  
PRICE  
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O 221531Z APR 82  
FM AMEMBASSY BRUSSELS

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AMEMBASSY PARIS 1852  
AMEMBASSY ROME 3432  
AMEMBASSY TOKYO 4360  
AMEMBASSY OTTAWA 4200  
AMEMBASSY BONN 8736

~~C O N F I D E N T I A L~~ BRUSSELS 05715

E.O. 12065: GDS 04/22/88 (MCDONNELL, MARY E.) OR-E  
TAGS: EFIN, ETRD, ENRG, EAID, EEC, BE  
SUBJECT: VERSAILLES ECONOMIC SUMMIT: APPRECIATION OF  
- BELGIAN GOVERNMENT FOR US POSITION  
REF: (A) STATE 97151; (B) BRUSSELS 5659

1. ~~CONFIDENTIAL~~ - ENTIRE TEXT

2. JACQUES VAN YPERSELE DE STRIHOU, CHEF DE CABINET (ECONOMIC) OF PRIME MINISTER CALLED ECON COUNSELOR APRIL 22 TO CONVEY WHAT WAS CLEARLY ENTHUSIASTIC APPRECIATION OF BOTH PRIME MINISTER MARTENS AND FOREIGN MINISTER TINDEMANS AT POSITION TAKEN BY THE USG ON THE MATTER OF BELGIAN PRESENCE AT THE VERSAILLES ECONOMIC SUMMIT. (REF A) US POSITION WAS CONVEYED BY ECON COUNSELOR TO VAN YPERSELE IN LETTER OF APRIL 15; AND REPEATED BY AMBASSADOR IN LETTER TO TINDEMANS ON APRIL 20.

3. VAN YPERSELE SAID THAT AS FAR AS THE BELGIANS ARE CONCERNED, THE MATTER OF GOB REPRESENTATION AT VERSAILLES IS SETTLED. BELGIANS RAISED THE QUESTION AT THE LAST MEETING OF EC HEADS OF GOVERNMENT AND STATE WHO DISCUSSED IT AFTER DINNER. BELGIANS PROPOSED THAT COMMUNITY SHOULD BE REPRESENTED BY BOTH THE PRESIDENT OF THE COMMISSION AND THE PRESIDENT-IN-OFFICE OF THE FOREIGN AFFAIRS COUNCIL (TINDEMANS). THEY ALSO PROPOSED THAT PRIME MINISTER MARTENS, AS HEAD OF GOVERNMENT, SHOULD REPRESENT THE EC PRESIDENCY AT DINNERS. AT THAT DISCUSSION SOME REPRESENTATIVES AGREED WITH THE BELGIANS BUT OTHERS FELT THAT THEY COULD NOT DECIDE FOR THOSE SUMMIT-SEVEN PARTNERS WHO WERE NOT MEMBERS OF THE COMMUNITY. IT IS POSSIBLE THAT THOSE WHO TOOK THIS LINE (VAN YPERSELE HINTED THAT THE FRENCH WERE AMONG THEM) MAY ASK OFFICIAL APPROVAL FROM CANADA, JAPAN, AND THE US. BELGIANS BELIEVE THAT JAPAN AND CANADA WILL NOT OBJECT AND GOB WAS, THEREFORE, PLEASED TO HAVE A STATEMENT OF THE US POSITION. (JAPANESE EMBASSY (SHIOGUCHI) TOLD US APRIL 22 THAT GOB WILL NOT OPPOSE BELGIUM'S PRESENCE AT SUMMIT IF OTHER COUNTRIES DO NOT OBJECT. HE UNDERSTOOD THAT FRANCE AND

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BY *CU* RELEA DATE 4/20/10

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SECRET

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TO AMEMBASSY BONN IMMEDIATE 0000  
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USEC ONLY, FROM THE SECRETARY TO THE AMBASSADOR ONLY  
E. O. 12065: RDS 4/26/02 (HAIG, ALEXANDER M.)  
TAGS: OVIP (SHULTZ, GEORGE)  
SUBJECT: MISSION OF SPECIAL EMISSARY

1. SECRET - ENTIRE TEXT.

2. SUMMARY. THE PRESIDENT HAS ASKED GEORGE SHULTZ TO SERVE AS HIS SPECIAL EMISSARY TO DISCUSS SHARED ECONOMIC CONCERNS WITH OUR MAJOR ALLIES. THIS CABLE PROVIDES A LETTER FROM PRESIDENT REAGAN, BACKGROUND ON THE PRIVATE MISSION, A PROPOSED SCHEDULE, AND TALKING POINTS FOR YOUR USE IN DELIVERING THE LETTER. END SUMMARY.

3. ACTION REQUESTED. DELIVER THE PRESIDENT'S LETTER DIRECTLY TO THE HEAD OF STATE OR GOVERNMENT AND TO PRESIDENT THORN. THERE WILL BE NO ORIGINAL.

4. BEGIN TEXT OF THE PRESIDENT'S LETTER. DEAR (USE FIRST NAME):

-- AS OUR PLANNING PROGRESSES TOWARD THE SUMMIT MEETINGS IN EARLY JUNE, I AM STRUCK BY THE OPPORTUNITY WE WILL HAVE IN THESE MEETINGS TO SHAPE THE ECONOMIC, POLITICAL AND SECURITY ENVIRONMENT IN THE 1980S. AT A TIME OF ECONOMIC DIFFICULTIES AND OF CHALLENGES TO GLOBAL PEACE AND SECURITY, WE MUST EXERCISE CARE TO ASSURE THAT OUR ACTIONS LEAD TO STRENGTHENED COOPERATION AND SOUND POLICIES FOR THE LONG TERM.

-- WE EACH FACE TROUBLESOME ECONOMIC PROBLEMS WHICH ARE UNLIKELY TO DISSOLVE IN THE SHORT TERM AND WE NEED TO ESTABLISH A BASIS FOR A CLOSE LONG TERM PARTNERSHIP WHICH CAN LEAD TO INCREASED PROSPERITY AND MUTUALLY BENEFICIAL ECONOMIC RELATIONS AMONG OURSELVES AND DEVELOPING NATIONS.

-- I AM FOLLOWING CLOSELY THE WORK OF OUR PERSONAL REPRESENTATIVES AND BELIEVE THE FOCUS AND DIRECTION OF THEIR EFFORTS ARE VERY POSITIVE. TO ENHANCE FURTHER THE DIALOGUE AMONG US, IT WOULD BE HELPFUL FOR ME TO GET AN UP-TO-DATE PICTURE OF YOUR PERSONAL CONCERNS. AND, I WANT TO PROVIDE YOU WITH OUR PERSPECTIVES.

-- I HAVE ASKED GEORGE SHULTZ TO DISCUSS THESE MATTERS

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BY CU NARA DATE 4/20/10

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NATIONAL SECURITY COUNCIL  
MESSAGE CENTER

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WITH YOU AND WITH OTHER COLLEAGUES. HE WILL REPORT DIRECTLY TO ME ON HIS CONVERSATIONS.

-- IN VIEW OF THE TIGHT SCHEDULE FOR HIS TRIP, COULD I PREVAIL ON YOU TO SEE GEORGE ON MAY (FILL IN APPROPRIATE DATE) ? HIS MISSION WILL BE PRIVATE AND CONFIDENTIAL, WITH NO PUBLICITY AND NO PUBLIC ANNOUNCEMENT.

-- I LOOK FORWARD WITH GREAT ANTICIPATION TO SEEING YOU IN JUNE. SINCERELY, RONALD REAGAN. END TEXT OF PRESIDENT'S MESSAGE.

5. BACKGROUND. GEORGE SHULTZ HAS AGREED TO UNDERTAKE A PRIVATE MISSION AS A SPECIAL EMISSARY FOR PRESIDENT REAGAN FOR DISCUSSIONS WITH KEY ALLIED LEADERS. THE PRESIDENT IS ASKING THIS PROMINENT AMERICAN TO UNDERTAKE A PRIVATE TRIP TO PRINCIPAL CAPITALS TO MEET WITH MITTERRAND, SCHMIDT, SPADOLINI, SUZUKI, THATCHER, THORN AND TRUDEAU TO DISCUSS ECONOMIC RELATIONS BETWEEN THE UNITED STATES AND THEIR COUNTRIES. HIS MISSION WILL BE (1) TO UNDERSCORE THE PRESIDENT'S OWN PERSONAL INTEREST IN THE ECONOMIC PROBLEMS BEFORE THE MAJOR INDUSTRIAL DEMOCRACIES; (2) TO HEAR AND ASSESS THE ECONOMIC CONCERNS OF THE LEADING ALLIED HEADS OF GOVERNMENT; AND (3) TO REPORT THEIR VIEWS DIRECTLY TO THE PRESIDENT.

-- SHULTZ WILL BE TRAVELING IN A PERSONAL CAPACITY. HE WILL NOT ENGAGE IN DISCUSSIONS OF CHANGES IN U.S. OR OTHER COUNTRIES POLICY. HOWEVER, HE WILL EXPLAIN THE THINKING BEHIND THE PRESIDENT'S PROGRAM AND PRESENT TO THE PRESIDENT THE CONCERNS OF WEST EUROPEAN AND JAPANESE LEADERS AND, PERHAPS, SOME RECIPES FOR ACTION BEFORE THE PRESIDENT'S TRIP TO EUROPE IN JUNE. CHANCELLOR SCHMIDT HAS EXPRESSED PARTICULAR INTEREST IN SUCH AN EXCHANGE OF VIEWS; MITTERRAND WAS INFORMED OF THIS

IMPENDING MISSION DURING HIS WASHINGTON VISIT. ALTHOUGH THE SHULTZ MISSION IS NOT PART OF THE REGULAR PREPARATIONS FOR THE VERSAILLES ECONOMIC SUMMIT, IT CAN HELP PROMOTE UNDERSTANDING WHICH CAN LEAD TO A SUCCESSFUL OUTCOME FOR THAT MEETING AND THE REST OF THE JUNE TRIP.

-- THERE WILL BE NO PUBLIC ANNOUNCEMENT OF THE TRIP. SINCE IT IS TO BE CONDUCTED AS A PRIVATE FACT-FINDING MISSION, U.S. OFFICIALS ARE NOT TO COMMENT ON THE TRIP. THE EMISSARY WILL MAKE A REPORT TO THE PRESIDENT ON HIS FINDINGS AND RECOMMENDATIONS AND FOLLOW-UP.

6. ALL CONTACT FOLLOWING DELIVERY OF THE LETTER TO THE HEAD OF GOVERNMENT IS TO BE HANDLED DIRECTLY BETWEEN THE OFFICE OF THE HEAD OF GOVERNMENT AND MR. SHULTZ' OFFICE.

7. TENTATIVE GENERAL SCHEDULE:

WEDNESDAY EVENING, MAY 5	DEPART WASHINGTON
THURSDAY MORNING, MAY 6	ARRIVE FRANKFURT/BONN
THURSDAY/FRIDAY, MAY 6-7	BONN
FRIDAY EVENING, MAY 7	ARRIVE ROME
SATURDAY MORNING, MAY 8	ROME
SATURDAY AFTERNOON, MAY 8	ARRIVE LONDON
SATURDAY/SUNDAY, MAY 8-9	LONDON
MONDAY, EARLY A.M., MAY 10	ARRIVE BRUSSELS
MONDAY, AFTERNOON, MAY 10	ARRIVE PARIS
TUESDAY, MAY 11	DEPART PARIS

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PAGE 03 OF 03 SECSTATE WASHDC 2814 DTG: 271949Z APR 82 PSN: 001844

WEDNESDAY, MAY 12	ARRIVE TOKYO
THURSDAY EVENING, MAY 13	DEPART TOKYO
THURSDAY EVENING MAY 13	ARRIVE OTTAWA
FRIDAY EVENING, MAY 14	RETURN TO WASHINGTON

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8. TALKING POINTS FOR THE AMBASSADOR. THE FOLLOWING ARE TALKING POINTS FROM WHICH YOU MAY DRAW IN YOUR PRESENTATION TO THE HEAD OF GOVERNMENT:

- PRESIDENT REAGAN PLACES HIGHEST EMPHASIS ON EFFORTS TO ASSURE SUSTAINED ECONOMIC RECOVERY FOR THE INDUSTRIAL DEMOCRACIES. HIS OWN DOMESTIC PROGRAM ADDRESSES THAT PRIORITY OBJECTIVE.
- THE PRESIDENT APPRECIATES THE EFFECTS OF HIS ECONOMIC

- PROGRAM ON THOSE UNDERWAY ELSEWHERE -- AND VICE VERSA. HE IS VERY SENSITIVE TO THE IMPLICATIONS OF ECONOMIC INTERDEPENDENCE.
- FOR THAT REASON, HE WANTS TO FACILITATE THE EXCHANGE OF VIEWS ON OUR SHARED ECONOMIC PROBLEMS AND OPPORTUNITIES.

- HE LOOKS FORWARD TO HIS TRIP TO EUROPE IN JUNE AS A UNIQUE OPPORTUNITY FOR CANDID DISCUSSIONS AMONG ALLIED LEADERS.
- HE IS PLEASED THAT PREPARATIONS FOR THE SUMMIT ARE GOING WELL.
- HE ALSO WANTS TO ENHANCE THE ALLIED DIALOGUE ON ECONOMIC ISSUES BY SENDING A SPECIAL PRIVATE EMISSARY FOR DISCUSSIONS IN BONN, LONDON, BRUSSELS, PARIS, ROME, TOKYO AND OTTAWA. HE HAS ASKED GEORGE SHULTZ TO MEET WITH YOU -- BOTH TO CONVEY HIS VIEWS TO YOU AND TO HEAR YOUR VIEWS. SHULTZ WILL THEN REPORT DIRECTLY TO THE PRESIDENT.

- MR. SHULTZ IS NOW MAKING ARRANGEMENTS FOR THIS TRIP. HE PLANS TO LEAVE WASHINGTON, MAY 5. HE WOULD LIKE TO MEET WITH YOU ON (FILL IN APPROPRIATE DATE). HE WOULD APPRECIATE HEARING DIRECTLY FROM YOUR OFFICE ABOUT A TIME AND PLACE CONVENIENT FOR YOU. HE CAN BE REACHED AT (415) 768-7844.

- THERE IS TO BE NO PUBLIC ANNOUNCEMENT OF THIS TRIP. IT IS A PRIVATE MISSION, PERFORMED AT THE REQUEST OF THE PRESIDENT, TO PROMOTE DIALOGUE ON ECONOMIC ISSUES AT THE HIGHEST POLITICAL LEVEL.

9. INFORMATION ON ADMINISTRATIVE ARRANGEMENTS SEPTEL. HAIG  
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MEMORANDUM

NATIONAL SECURITY COUNCIL

~~CONFIDENTIAL~~

April 29, 1982

*File  
France  
Summit*

MEMORANDUM FOR WILLIAM P. CLARK

FROM: HENRY R. NAU *HRN*

SUBJECT: French Concerns About Recent Budget Developments

The French Ambassador invited me to breakfast this morning (there were just the two of us, along with the Economic and Finance Counselors) to discuss his concerns about the recent budget developments. He expressed strong pessimism about what this would mean for recovery in the U.S. economy in the second half of this year. Without such a recovery, he argued, European efforts to contain unemployment will not succeed. And in France some improvement in the unemployment situation is a necessary offset to the recent agreements which the government obtained from the labor unions to hold contract wage increases this year to an average level of 11%. Unless these agreements hold, the French inflation rate this year will not diminish from 14 1/2% in 1981 to a projected level of 12 1/2% in 1982, but will actually increase perhaps as high as 15-20%.

The Ambassador's concerns are undoubtedly the first of many which we will hear from Europeans over the next few days and weeks. The budget outcome will make more difficult the task of reaching consensus and agreement on cooperative and positive responses by the Summit countries at Versailles. Beryl Sprinkel has convened a working group to develop some of the details of a possible Summit agreement on international economic and monetary cooperation. This group should also consider how to contain the worse implications of recent budget events in the U.S. for our discussions with the Europeans in the run-up to Versailles. While the budget decisions are unquestionably right in the context of domestic politics, they are not going to play very favorably in the international context.

~~CONFIDENTIAL~~

Review 4/29/88

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NLRR MUT-081 #50876

BY AL NARA DATE 4/23/10

~~CONFIDENTIAL~~

MEMORANDUM

#3001

NATIONAL SECURITY COUNCIL

~~CONFIDENTIAL~~

April 30, 1982

*File  
France  
Summit*

ACTION

MEMORANDUM FOR WILLIAM P. CLARK

FROM: HENRY R. NAU *HRN*

SUBJECT: Memo from Hormats Re Versailles Summit Planning

Bob Hormats has reported to you and Deaver on the changes made in the Versailles Summit schedule for Sunday, June 6, as a result of his discussion with Attali in Rambouillet last weekend (Tab II).

I have attached a short note from you to Deaver passing on Hormats' memo.

*Rent*  
Rentschler concurs.

RECOMMENDATION: That you sign the memo to Deaver at Tab I.

APPROVE \_\_\_\_\_

DISAPPROVE \_\_\_\_\_

Attachments

- Tab I Memo to Deaver
- II Memo from Hormats

~~CONFIDENTIAL~~

Review 4/30/88

DECLASSIFIED  
White House Guidelines, August 28, 1997  
By *smf* NARA, Date *3/20/06*

MEMORANDUM

~~CONFIDENTIAL~~

#3001

THE WHITE HOUSE  
WASHINGTON

~~CONFIDENTIAL~~

MEMORANDUM FOR MICHAEL K. DEEVER

FROM: WILLIAM P. CLARK

SUBJECT: Memo from Hormats Re Versailles Summit Planning

Bob Hormats has sent us a formal report on the changes in the Versailles Summit schedule for Sunday, June 6, as a result of his conversation with Attali at Rambouillet on April 24-25.

Attachment

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DECLASSIFIED  
White House Guidelines, August 28, 1997  
NARA, Date 2/20/08

~~CONFIDENTIAL~~



~~CONFIDENTIAL~~

DEPARTMENT OF STATE

Washington, D.C. 20520

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MEMORANDUM FOR: MR. WILLIAM P. CLARK  
MR. MICHAEL DEEVER

From: Robert D. Hormats *RDH*  
Bureau of Economic and Business Affairs

Subject: Versailles Summit Planning

I again approached the French about additional time on Sunday afternoon. They agreed that lunch will be shortened and that the final session will last only one hour instead of an hour and a half; it will end at 3:00. This will give us two hours between the final session and the joint press conference, which will begin at 5:00 and end at 5:30. The President will then have from 5:30 to 8:00 free, unless he wishes to have his own press conference in that period.

DECLASSIFIED  
Department of State Guidelines, July 21, 1997  
By *SM* NARA, Date *2/20/08*

~~CONFIDENTIAL~~

GDS 4/28/88

CC: A  
May 3-4

file  
France  
Summit

Draft Presidential Letter to  
Summit Participants

This letter would go to Versailles/Bonn participants.  
A shorter letter dealing with the NATO Summit  
would go to other Allies, and a  
letter on Versailles alone could go to Japan.  
Separate letters should also go to Thorn and Luns.

May 1, 1982

Dear :

As our meetings at Versailles and Bonn draw near, I wanted to take the opportunity to share with you my own thinking on those two important events.

I believe that our decisions at the Summits must show a revitalized and unified West committed to the values on which our democracies are based. We need to demonstrate the ability to guarantee the peace and security necessary for those values to prosper. Together we should review our common directions for the 1980s, and strengthen cooperation for meeting our objectives. There is no question that our efforts to sort out the path to sound economic growth will be vital to our security. We should also define more clearly our approach to East-West issues, based on the principles of restraint and responsibility, which will enable us to bring about a more constructive relationship with the Soviet Union.

Vigorous growth and minimal inflation in the United States are, I think we all agree, vital to international prosperity. I am working with the Congress to establish the conditions for a healthy U.S. economy which fully responds to its international responsibilities. (Insert here appropriate language on any budget compromise.)

While working to strengthen the U.S. economy, however, I also am strongly committed to cooperation with America's closest economic partners at Versailles to strengthen the global economy. Together, we must reassure our publics that the painful fight to reduce inflation will not now be squandered. With our common interests in mind, I want to explore at Versailles the possibility for more effective cooperation on economic policies as a means to promote greater prosperity and market stability.

The pressures for protectionism, and the temptation to resort to bilateral trading arrangements, are strong and growing. We are facing perhaps the most serious threat to our open multilateral trading system since the war. We need to discuss what we must do, beyond statements of intent, to preserve and improve the multilateral trading system which has been, and in the future can continue to be, an indispensable element of our prosperity, and

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that of the developing countries. More specifically, I suggest that we address and attempt to reach agreement on a commitment to a productive GATT ministerial this fall which extends the principles of our multilateral trading system to new areas, such as services, high technology and trade-related investment.

Concerning our economic relations with the East, we need to build on our discussions in Ottawa, learning from the experiences of the past several months. I am particularly troubled by the fact that the financial difficulties in Eastern Europe and the Soviet Union may pose a threat to the stability of the international financial system, of which we are the custodians. Under Secretary Buckley has been consulting with your government on my behalf to consider ways to limit official credits, guarantees and subsidies to the Soviet Union -- in an effort to prevent the implicit "reverse leverage" we experienced in the Polish case from developing in the Soviet Union. He reports that progress is being made. I strongly urge that you join with us in this effort so that we can announce, at Versailles, an agreement on credit policy toward the USSR, and on a mechanism to monitor credit flows to the East.

I believe we all agree that we need to reach out to the younger generation, to touch their natural idealism and to make clear that we consider them important to our common enterprise. It is for that reason I have suggested an initiative at Versailles substantially to increase exchanges among our younger people. Also for that reason I will be delivering an address to Parliament in London between the Versailles and Bonn Summits entirely devoted to democracy as the future for all mankind.

At Bonn, it is crucial that we demonstrate the health and vitality of the Atlantic Alliance and show that our partnership continues to be central to our well-being. We should reaffirm the shared Western values which NATO exists to defend, and our commitment to peace and progress. Spain's formal entry into the Alliance will dramatically symbolize our purpose and the vigor of our shared endeavor. It is thus important that we continue our efforts to ensure that Spain will participate as a full member in this major event.

We also will need to underscore our resolve in the face of threatening Soviet behavior. We should arrive at a common assessment of the prospects, possibilities and pitfalls which we face in our relations with the East. We should also establish a

framework for East-West relations, based on the principles of mutual restraint and responsibility. This will enable us to work toward a more constructive relationship with the Soviet Union which would protect our vital interests and better ensure international peace and security.

In order to attain this more constructive relationship with the East, it is vital that we improve our ability to deter Soviet aggression or intimidation. Therefore, I propose that we adopt at Bonn a defense "Charter" which would set the directions for concrete improvements in the Alliance's conventional defense posture over the next five years. The U.S. will be discussing this idea in more detail within the Alliance in the near future.

At the same time, we will want to emphasize our own dedication to progress in arms control, and to leave our own publics -- as well as the East -- in no doubt that it is we who offer the best program to achieve this objective. I will shortly announce the date for START talks, and hope to be in a position in Bonn to discuss our START objectives. We have also, as you know, introduced into NATO some new proposals to reenergize the MBFR negotiations. I hope we will be able at the Summit to announce NATO's intention to present these proposals in the Vienna talks, and to discuss our preparations for the U.N. Special Session on Disarmament, which a number of us will be addressing.

We will also want to show our sensitivity, as democratic industrialized nations, to world-wide aspirations for freedom and justice. This is particularly true with respect to Poland. We should reaffirm our measures against the Soviet Union and Polish regime if conditions so dictate. But we should also make clear our commitment to join in a program of economic stabilization and reconstruction for Poland if martial law is lifted, repression ceases, political prisoners are freed, and a genuine dialogue is established.

One of our purposes at both Summits will be to enhance the quality of our consultations on economic, political and security issues of direct concern to all of us. I will be particularly interested in your views on this important question, and I hope we will be able to agree on concrete steps to ensure an improved dialogue and, as a result, better coordination and decisionmaking.

We will soon sit down together to discuss these and other issues of the most direct concern to each of us and every one of our citizens. I am confident that our meetings can respond to the expectations they will generate, among our own peoples and those of many other nations, by strengthening the peace, laying the foundation for renewed prosperity, and providing more effectively for our collective security.

Sincerely,



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JUNE SUMMITS: CONSULTATIONS GAME PLAN

Intensive and timely consultations with the Allies will be crucial if we are to achieve our objectives for the two Summits. This is particularly true of the key period bracketed by the Presidential letter and speech in early May and the NAC Ministerial in mid-May, during which we will need to secure agreement on:

-- Our overall approach to Versailles and Bonn, through which we seek to send a clear message of unity, vitality, and resolve to our own publics and to the East.

-- Our specific objectives for the two meetings, to include:

o At Versailles:

-- Reaffirmation of an economic strategy which targets price stability, efficiency and the private sector.

-- Commitment to the multilateral trading system, and to a productive forward-looking GATT Ministerial.

-- Emphasis on the security dimension of East-West economic relations, evidenced by agreement on limiting official credits to the USSR and by a continuing commitment to a strengthened COCOM.

o At Bonn:

-- Establishment of framework of restraint and responsibility for East-West relations.

-- Completion of Spanish accession.

-- Agreement on "Charter" for improved conventional defense.

-- Allied support for our arms control policy.

In order to accomplish this we will need to make maximum use of any leverage provided by the President's letter and speech, particularly with regard to START, other arms control issues, or the budget deficit. Among the key opportunities during this period are (full list of opportunities is attached):

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o DPC Ministerial: May 6-7

Inter alia to firm up the conventional defense component of the Bonn Summit and reach agreement on the defense "Charter."

o George Schultz' mission to Europe, Canada and Japan: May 6-14

To express the President's concern about the international economic situation, his understanding of the impact of U.S. policy on other countries and to provide a channel to the President for the personal views of other Versailles participants. Schultz may deliver the President's letter on the Summits to European Heads of State.

o Walt Stoessel's trip to Europe: May 6-14

To follow up with the Germans, French and British on the key elements of the President's letter/speech and lay the groundwork for agreement at the NAC Ministerial on the basic elements of our approach, particularly those specific initiatives not appropriate for DPC consideration or needing complementary initiatives.

o OECD Ministerial: May 10-11

Secretaries Regan and Baldrige, USTR Brock, and CEA Chairman Weidenbaum, together with Walt Stoessel, can lay the groundwork for Versailles through their own formal remarks and in bilaterals. The OECD can play an important role in broadening agreement on our initiatives, especially on trade and investment issues and certain technical aspects of East-West economic relations. We must ensure that the communique contains elements supportive of our objectives at Versailles/Bonn.

o IMF-related meetings: May 11-14

Secretary Regan, in the G-5, G-10 and bilateral meetings, can establish the U.S. position on general economic policy to ensure broad, if not unanimous, agreement on economic policy objectives for Versailles. Finance Ministers from other Versailles participants will be particularly interested in discussing the U.S. budget outlook. (If we decide to seek an operational outcome in the area of enhanced international economic cooperation, Regan could nail down a specific forum -- e.g., more frequent G-10 Ministerial meetings -- at this time.)

o "Sherpa" Meeting in Paris for Versailles: May 13-14

To pull together a package for Versailles, perhaps expressed as a communique, that contains the major U.S. objectives; and to identify issues which will have to be resolved before Versailles.

o Quadripartite Foreign Ministers Dinner at Luxembourg: May 16

To agree at four on our approach to the Bonn Summit, which we would then seek to have NAC Ministers ratify during May 17-18 meeting.

o NAC Ministerial: May 17-18

Formalize agreement, to extent possible, on content and outcome of Bonn Summit.

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VERSAILLES/BONN SUMMITS:  
CALENDAR OF CONSULTATIONS/OPPORTUNITIES

APRIL

- 24-25 "Sherpa" meeting at Rambouillet to prepare Versailles Summit.
- 26 Under Secretary Buckley meets with Versailles Summit Representatives on U.S. credits initiative.
- 26-27 EC Foreign Ministers meeting, Luxembourg.
- 26-27 Dutch Prime Minister Van Agt in Washington.

MAY

- (early) Possible high-level, low-visibility visit to Europe for consultations with key Allies.
- 1 Presidential letter to NATO Heads of Government/State, tailored as appropriate to Versailles Summit participants.
- 5 Spanish Foreign Minister Perez Llorca visits Washington.
- 6-7 DPC Ministerial in Brussels.
- 6-7 U.K. Foreign Secretary to Washington (?).
- 6-7 Export Credit Arrangement meeting; urge upward recategorization of the USSR.
- 6-14 Deputy Secretary Stoessel in Europe (Bonn, 5/6-7; Berlin, 5/7-10; Paris, 5/10-12; London, 5/12-13; Frankfurt, 5/13-14).
- 8-9 Informal "Gymnich" meeting of EC Foreign Ministers.

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Department of State Guidelines, July 21, 1997  
By smf NARA, Date 2/20/08

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- 10-11 OECD Ministerial - Secretaries Regan, Baldrige, USTR Brock and Deputy Secretary Stoessel attend.
- 11-12 Deputy Secretary Stoessel in London.
- 12-13 Seven-nation Political Directors meeting for Versailles Summit.
- 13-14 IBRD/IMF meeting, Helsinki. Use bilaterals on fringes.
- mid-May SCG meeting.
- 14-16 "Sherpa" meeting in Paris for Versailles Summit.
- 16 Quadripartite Foreign Ministers dinner at Luxembourg.
- 16-20 Possible trip by Under Secretary Eagleburger to Europe.
- 17-18 NATO Foreign Ministers meeting, Luxembourg.
- 19-20 Possible visit by the Secretary to Greece and Turkey.
- 24-25 EC Foreign Ministers meeting.
- 28-31 North Atlantic Assembly, Madeira.

JUNE

- 4-6 Versailles Summit.
- 7-9 President in Rome/London.
- 9-10 President in Bonn; NATO Summit.

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BACKGROUND NOTE ON THE  
VERSAILLES ECONOMIC SUMMIT

The Economic Summit to be held June 4 through 6, 1982 at Versailles, France will be the eighth summit of industrialized countries and the second to be hosted by France. France hosted the first summit at Rambouillet in 1975. Participants in the Versailles Summit will include the heads of state or government from Canada, France, the Federal Republic of Germany, Great Britain, Italy, Japan and the United States. The President of the Commission of the European Communities will also participate.

In light of the serious economic difficulties facing industrialized countries, these summit meetings offer an opportunity to develop better understanding and to insure that domestic policy decisions are informed by international considerations. These meetings are primarily designed to provide an opportunity for heads of state to exchange views and share experiences on economic questions. While, from time to time, specific initiatives are developed in the summit context, it is not a decision-making forum.

The agenda for the Versailles Summit will include:

- the global economic situation,
- international trade and investment,
- East-West economic relations,
- energy and,
- relations with developing countries. In

addition to the traditional topics, the President of France will submit a report to his colleagues on "Technology, Employment and Economic Growth."

The Versailles Summit, as past summits, will be prepared by the Personal Representatives of the Heads of State/Government participating in the Summit. As the host, President Mitterrand's Personal Representative, Jacques Attali, chairs the meetings of Personal Representatives. Assistant Secretary of State for Economic and Business Affairs, Robert Hormats, is President Reagan's Personal Representative. Under Secretary of Treasury Beryl Sprinkel and Henry Nau of the NSC Staff complete the U.S. delegation for preparatory meetings.

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OFFICE OF THE UNDER SECRETARY  
OF STATE FOR ECONOMIC AFFAIRS

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Henry -

Please don't share  
this draft with anyone  
at this point.

Thanks

Marshall

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Draft Presidential Letter to  
Summit Participants

(This letter would go to Versailles/Bonn participants.  
A shorter letter dealing with the NATO Summit  
would go to other Allies, and a separate  
letter on Versailles alone could go to Japan.  
Separate letters should also go to Thorn and Luns)

Dear \_\_\_\_\_:

As our meetings at Versailles and Bonn draw near, I wanted to take this opportunity to share with you my own thinking on those two important events.

The outcome of the relatively few hours we will have together in June could help to shape the international economic, political and security environment of the 1980s. Our broadest responsibilities are the peace, security and prosperity of our peoples, and the values on which our societies are based. Our June discussions will be important in advancing these goals. With regard to each other, it is vital that we reach agreement on strengthened cooperation and chart clearly the direction we will be traveling together in the 1980s. With respect to the East, we must develop a clear and common sense of how to deal with the Soviet Union in order to protect our vital interests and give incentives to the USSR for restraint and responsibility. Taken together, our decisions at Versailles and Bonn must show a revitalized and unified West, with modernized institutions, which is committed to the basic principles on which our democracies are based.

There is no question that our efforts at Versailles to sort out the path to sound economic growth will be important for what we will seek to achieve at Bonn. I have worked with the Congress to establish the conditions for a healthy U.S. economy which fully responds to its international responsibilities. Vigorous growth and minimal inflation in the United States are, I think we agree, vital to the re-emergence of international prosperity. We must reassure our publics that the painful fight to reduce inflation will not now be squandered by ill-timed efforts to stimulate our economies artificially, buying short-run employment at heavy cost to our economic future. With our common interests in mind, I want to explore at Versailles the possibility for more effective cooperation on

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economic policies as a means to promote greater prosperity and stability. We also need to discuss what we must do, beyond statements of intent, to preserve and improve the multilateral trading system which has been, and in the future will be, an indispensable element of our prosperity.

More specifically, I suggest that we address and attempt to reach agreement on:

- o A commitment to resolve constructively the problems which face the multilateral trading system and to a productive GATT ministerial this fall which extends the principles of our multilateral trading system to new sectors and new countries.

- o An initiative on multilateral "food teams" for the developing world, to underscore the importance of agricultural policy for development, as we discussed at Cancun.

- o A cooperative approach to assure enhanced energy security for the West and to strengthen our cooperation in this area.

Concerning our economic relations with the East, we need to build on our discussions in Ottawa, learning from the experiences of the past several months. I am particularly troubled by the fact that the financial difficulties in Eastern Europe and the Soviet Union may pose a threat to the stability of the international financial system, of which we are the custodians. Under Secretary Buckley has been consulting with your government on my behalf to consider ways to limit official credits, guarantees and subsidies to the Soviet Union - in an effort to prevent the "reverse leverage" we experienced in the Polish case from developing in the Soviet Union. He reports that progress is being made. I strongly urge that you join with us in this effort so that we can announce, at Versailles, an agreement on credit policy toward the USSR, and on a mechanism to monitor credit flows to the East.

At Bonn, it is crucial that we demonstrate the health and vitality of the Atlantic Alliance and show that our partnership remains as central to our well-being as it has been for three decades. We should reaffirm that this partnership is based on shared Western values, and our commitment to peace and progress for all. Spain's formal entry into the Alliance would clearly be a major demonstration of the vigor of the Atlantic enterprise. It is thus essential that, in the weeks ahead, we continue our efforts to ensure that Spain will take part as a full member in this major event.

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We will need to make clear our resolve in the face of threatening Soviet behavior. It is important to carry into the future that attention to the security of our peoples which has served us so successfully since the birth of the Alliance.

At the same time, we will want to emphasize our own dedication to progress in arms control, and to leave our own publics -- as well as the East -- in no doubt that it is we who offer the best ideas and the best program for such progress. I will shortly announce the date for START talks, and hope to be in a position in Bonn to discuss our START objectives. We have also, as you know, introduced into NATO some new proposals to energize the MBFR negotiations. I hope we will be able at the Summit to announce NATO's intention to present these proposals in the Vienna talks, and to discuss our preparations for the U.N. Special Session on Disarmament, which a number of us will be addressing.

We will also want to show our sensitivity, as democratic industrialized nations, to the aspirations for freedom and justice throughout the world. This is particularly true with respect to Poland. We should reaffirm our measures against the Soviet Union and Polish regime if conditions so dictate. But we should also make clear our commitment to join in a major program of economic stabilization and reconstruction for Poland if martial law is lifted, repression ceases, political prisoners are released, and a genuine dialogue is established.

These various objectives fit effectively into our common goal of working to ensure restraint and responsibility on the part of all nations. In this regard, I propose that we adopt at Bonn a "Charter" on conventional defense which would set the directions for concrete improvements in the Alliance's conventional defense posture over the next five years. The U.S. will be discussing this idea in more detail within the Alliance in the near future.

We should also look ahead to other ways to improve our work together so as to capitalize on our natural diversity as we seek maximum unity. The United States values the suggestions for improving the quality of our consultations made by other Allies in recent months, and I look forward to joining with you in Bonn to make this thought a reality.

As we work toward these Summits, you can be assured that I have your concerns, particularly in the areas of the economy

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and arms control, very much in mind. I share your desire for meetings which will prove to be an enduring success in providing for the most productive Allied economic and security cooperation in the years to come.

Sincerely,

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