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162321	PAPER	RELATIONS WITH DEVELOPING COUNTRIERIES INTRODUCTION & US OBJECTIVES AND TACTICS	7	ND	B1

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Comparative Economic Charts and Commentary on Summit Countries

1. Real GNP/GDP Growth Rates
2. Effects of U.S. Recovery on Other Summit Country Growth
3. Consumer Price Increases
4. Unemployment Rates
5. Trade Account Balances (in dollars and as a percent of GNP/GDP)
6. Current Account Balances (in dollars and as a percent of GNP/GDP)
7. Public Sector Deficit and Expenditures as Percent of GNP/GDP (Federal, State, Local Governments)
8. Central Government Deficit and Expenditures as Percent of GNP/GDP
9. Nominal and Real Short-Term Interest Rates
10. Exchange Rate Changes: Dollar vs. Other Currencies
11. Structural Charts
    - -- Total Change in Civilian Employment
    - -- Youth as Percent of Unemployed and Labor Force
    - -- Unemployment Check as Percent of Last Paycheck
    - -- Long Term Unemployment (As Percent of Total Unemployment)

Treasury Department
April 1985

Real GNP/GDP Growth Rates
(Year-over-Year Percent Change)

	1983	1984	1985†	1986†
U.S.	3.7	6.8	3.9	4.0
U.K.	3.2	1.6	3.2	3.7
France	0.7	2.0	1.5	3.1
Germany	1.3	2.6	3.2	4.4
Japan	3.4	5.8	4.7	4.5
Canada	3.3	4.7	3.4	3.3
Italy	-1.2	2.6	2.9	3.3

-- Graph shows recovery/expansion taking hold.

-- U.S. growth the highest last year (6.8%), but now settling down to a more sustainable rate.

-- Disappointing growth in Europe last year (2.2%); partly reflects miners' strike in U.K. and slow French recuperation from disastrous earlier socialist policies; but also due to structural rigidities.

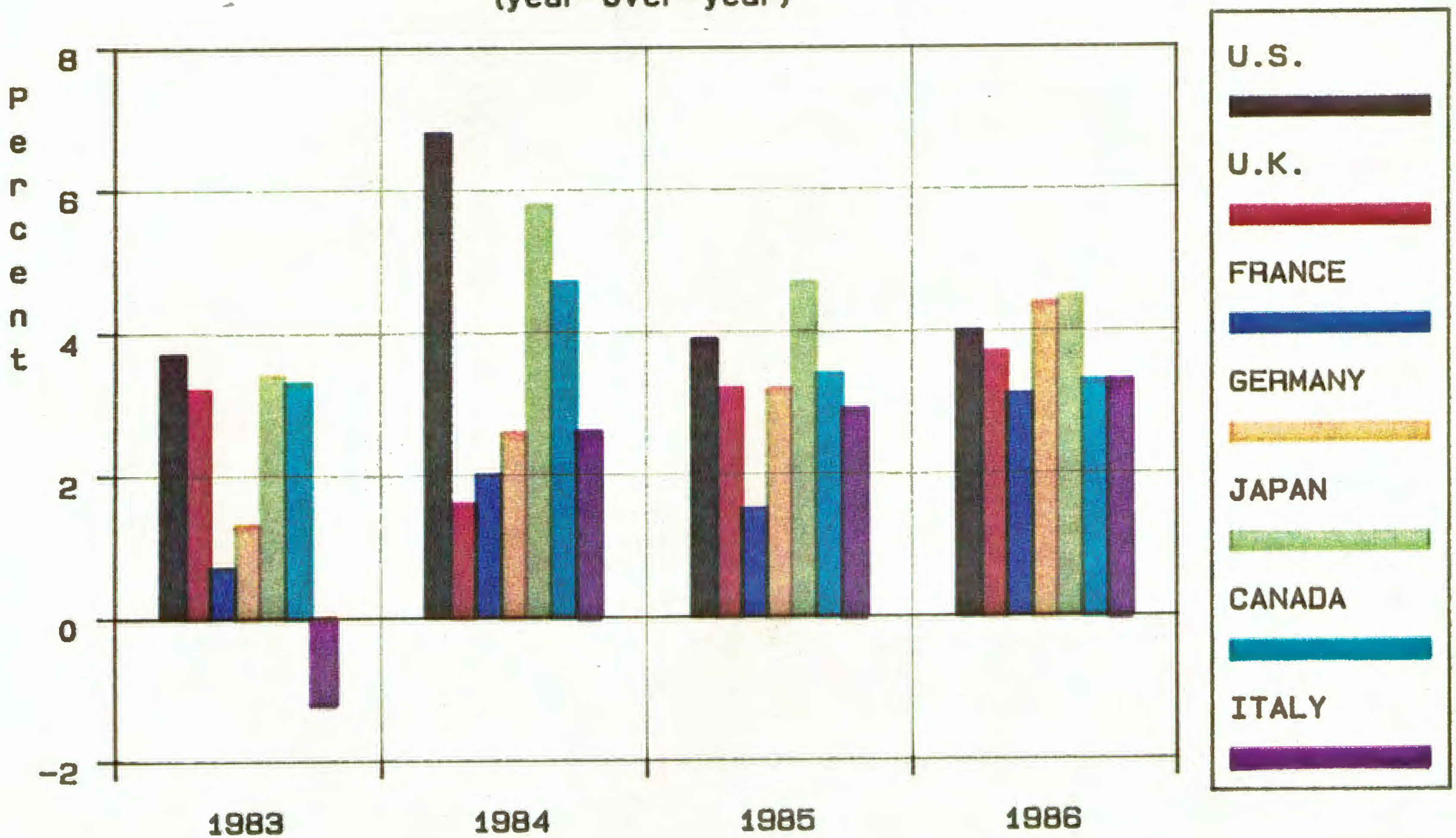
-- Faster European growth expected in 1985 and 1986 (2.7% and 3.7%), with lower (but still high) growth in U.S. and Japan. France not likely to achieve sizeable growth till 1986.

-- Projections for this year and next indicate better convergence of performance in Summit countries.

†Treasury Forecast

Real GNP/GDP Growth Rates

(year-over-year)



Forecast Forecast

U.S. Recovery: Effects on Summit Country Growth
(Cumulative Effects: 1983 and 1984)

Charts separate foreign country (4th/4th) growth rates for the cumulative period 1983-1984 into two parts:

** hatch shading due to U.S. recovery impact

** color portion due to other factors

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

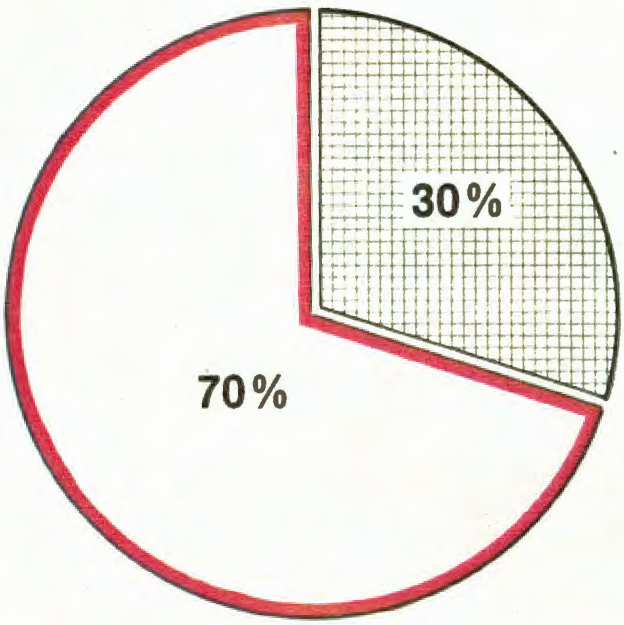
-- Estimates rough, but give idea of importance of U.S. recovery for recovery abroad.

-- U.S. growth has been single most important factor in European recovery. Especially for France where most of French real growth is the result of the U.S. expansion.

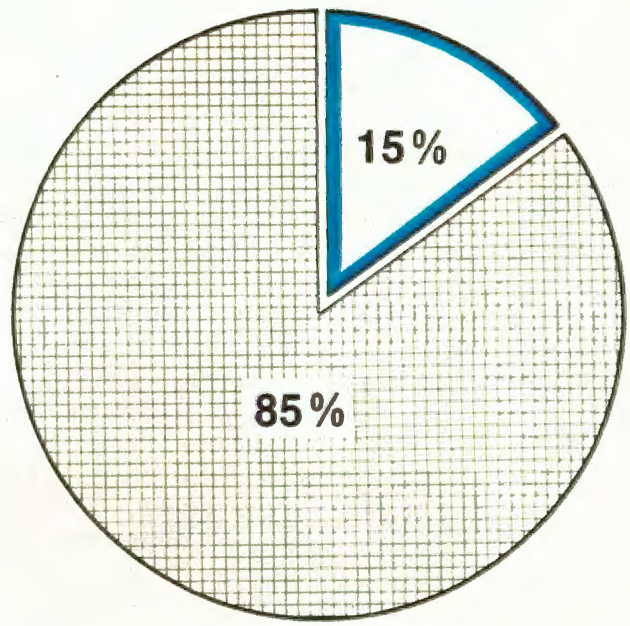
	Share of Foreign Country's Growth Caused by U.S. Recovery	1983-84 % GNP Growth Total	1983-84 % GNP Growth Caused by U.S.
U.K.	30%	6.8	1.9
France	85%	2.7	2.3
Germany	45%	6.0	2.7
Japan	35%	10.5	3.7
Canada	35%	11.1	4.0
Italy	50%	4.5	2.3

.S. Recovery Effects on Summit Country Growth

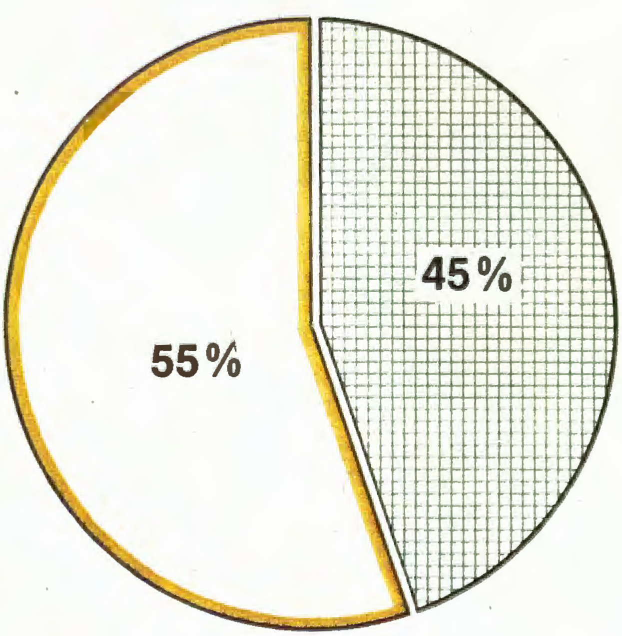
(Cumulative Effects: 1983 and 1984)



U.K.



France



Germany

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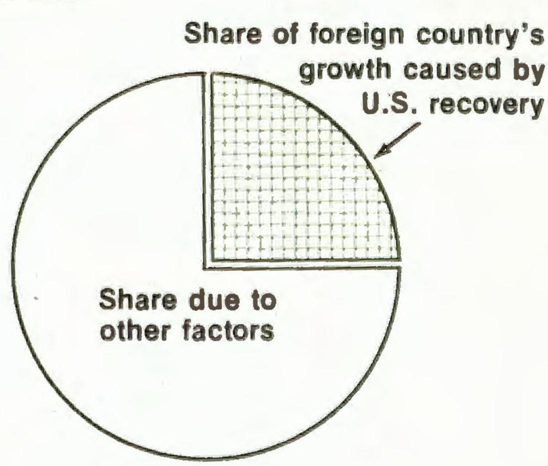

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U.S. Recovery Effects on Summit Country Growth

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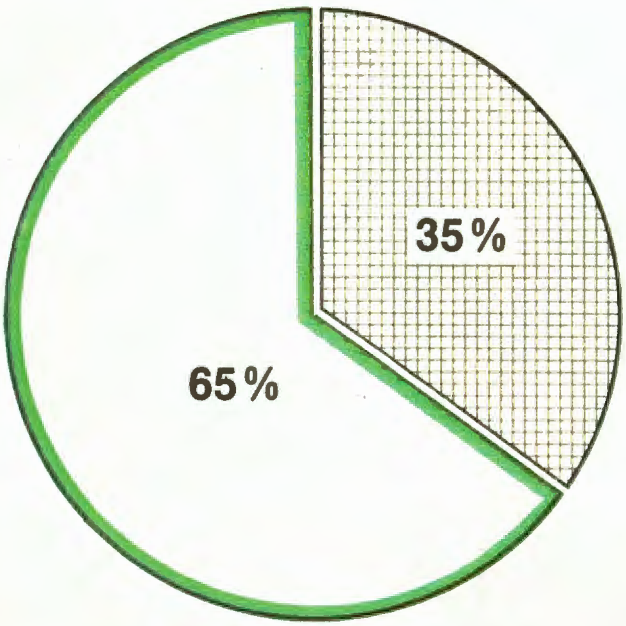
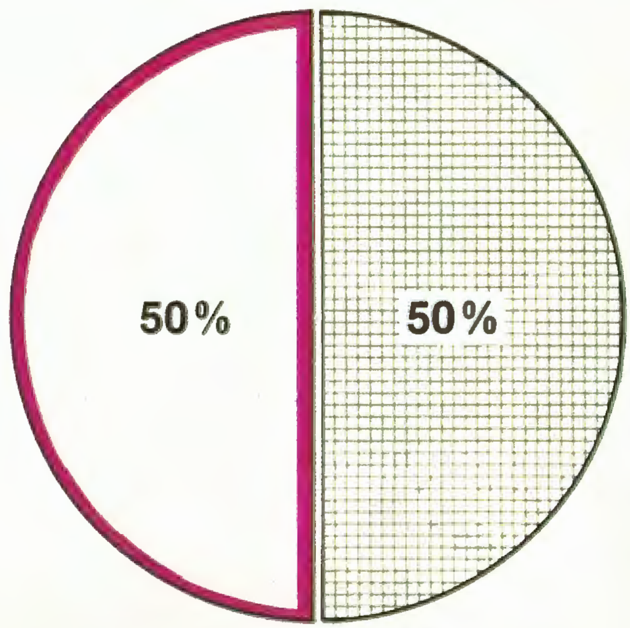
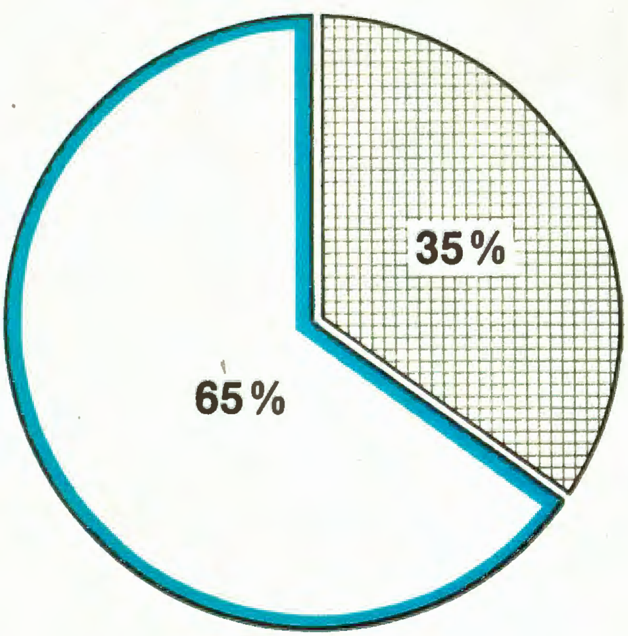


Japan



Italy



Canada

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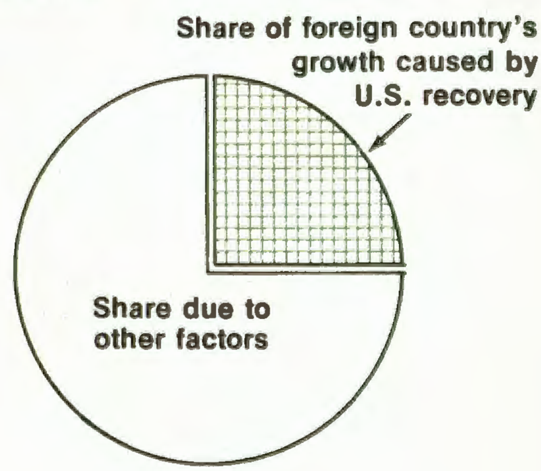

Consumer Price Increases
(Annual Average Percent Increase)

	1983	1984	1985†	1986†
U.S.	3.2	4.3	4.1	4.3
U.K.	4.6	5.0	5.6	5.2
France	9.4	7.4	6.0	5.4
Germany	3.3	2.4	2.7	3.0
Japan	1.9	2.3	2.4	2.5
Canada	5.8	4.4	4.0	3.1
Italy	15.0	10.6	9.0	8.5

-- Most striking feature is continued convergence of inflation to lower rates. In 1983 spread between best/worst performers was 13 percentage points. This year spread narrows to 6-1/2 points.

-- Average Summit country inflation (4.4% in 1984) nearly back to 1972 (pre-oil price shock) levels (4.3%).

-- U.S. less than 1/3 peak 1980 rate; in 1980, above European average; 1984, 25% below Europe average.

-- Both France and Italy have made recent progress in reducing inflation rates, but still above the others.

†Treasury Forecast

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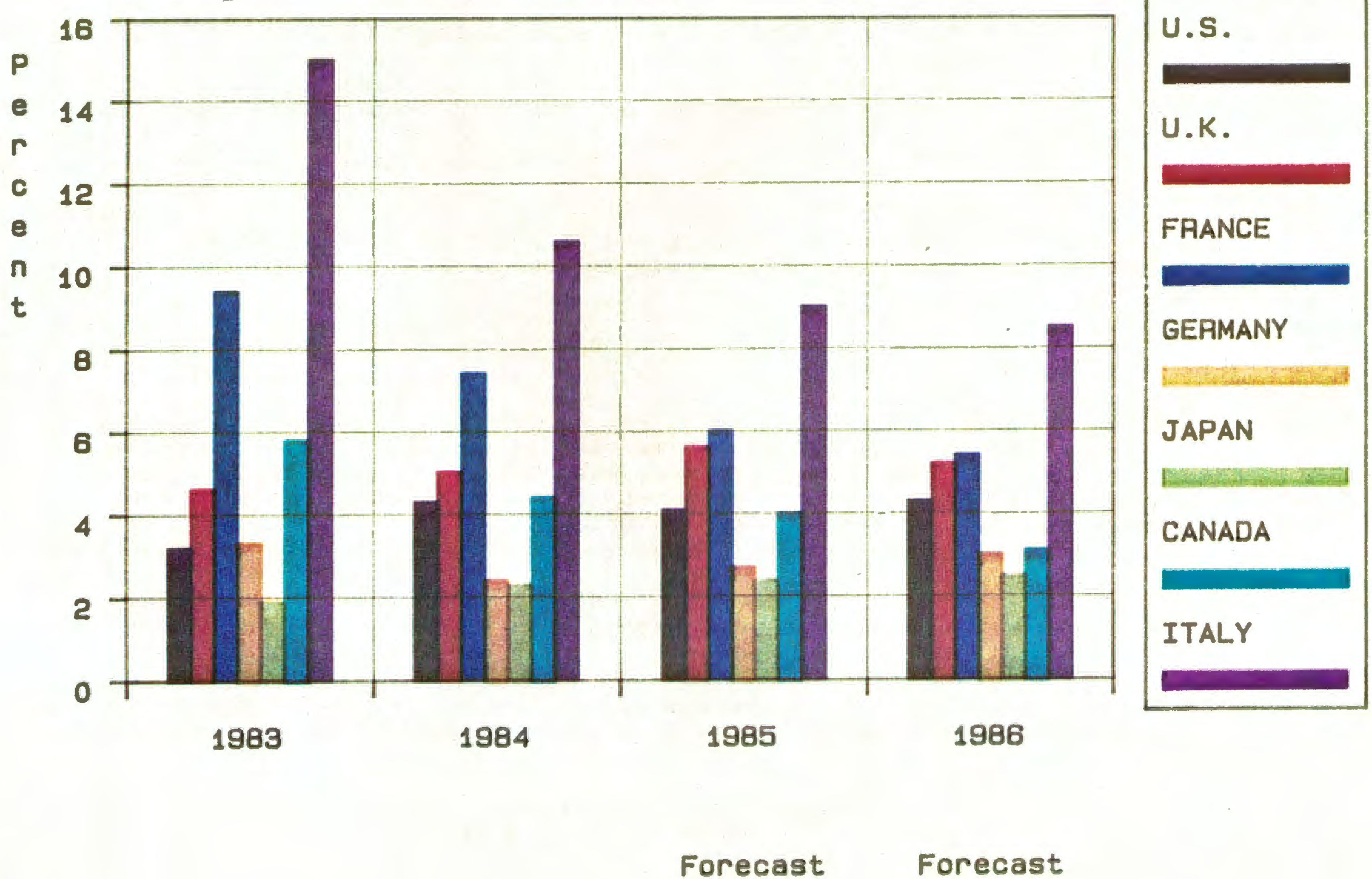
Consumer Price Increases

(Annual Averages)



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Unemployment Rates
(Total Labor Force; U.S. Concept)

-- The U.S. has shown the most dramatic reduction in unemployment rates from recession highs -- from 10.5% in the fourth quarter of 1982 to 7.2% in March 1985.

-- Only U.S., Canada have experienced declining unemployment rates recently, but Canada's rate remains quite high.

-- Most striking feature of the trend of unemployment rates since 1970 is gradual rise in the levels, most notably in Europe and Canada. For example, the rate of unemployment in Germany rose from 0.5 percent in 1970 to 7.2 percent in 1984. In France, the rate rose from 2.3 percent in 1970 to 9.8 percent last year. A similar picture exists in Canada, with the unemployment rate there rising from 5.7 percent in 1970 to 11.2 percent in 1984.

-- By comparison, the unemployment rate in the U.S. rose from 4.8 percent in 1970 to 7.2 percent in 1984.

-- Upward trend is indicative of lack of flexibility in labor market -- wage flexibility on the part of labor in particular -- to changes taking place in economy.

-- Sharp reduction of U.S. unemployment in 1983-84 period reflects not only cyclical factors but, in addition, better ability of labor market to match workers with job offers. This was due importantly to greater wage flexibility on the part of labor.

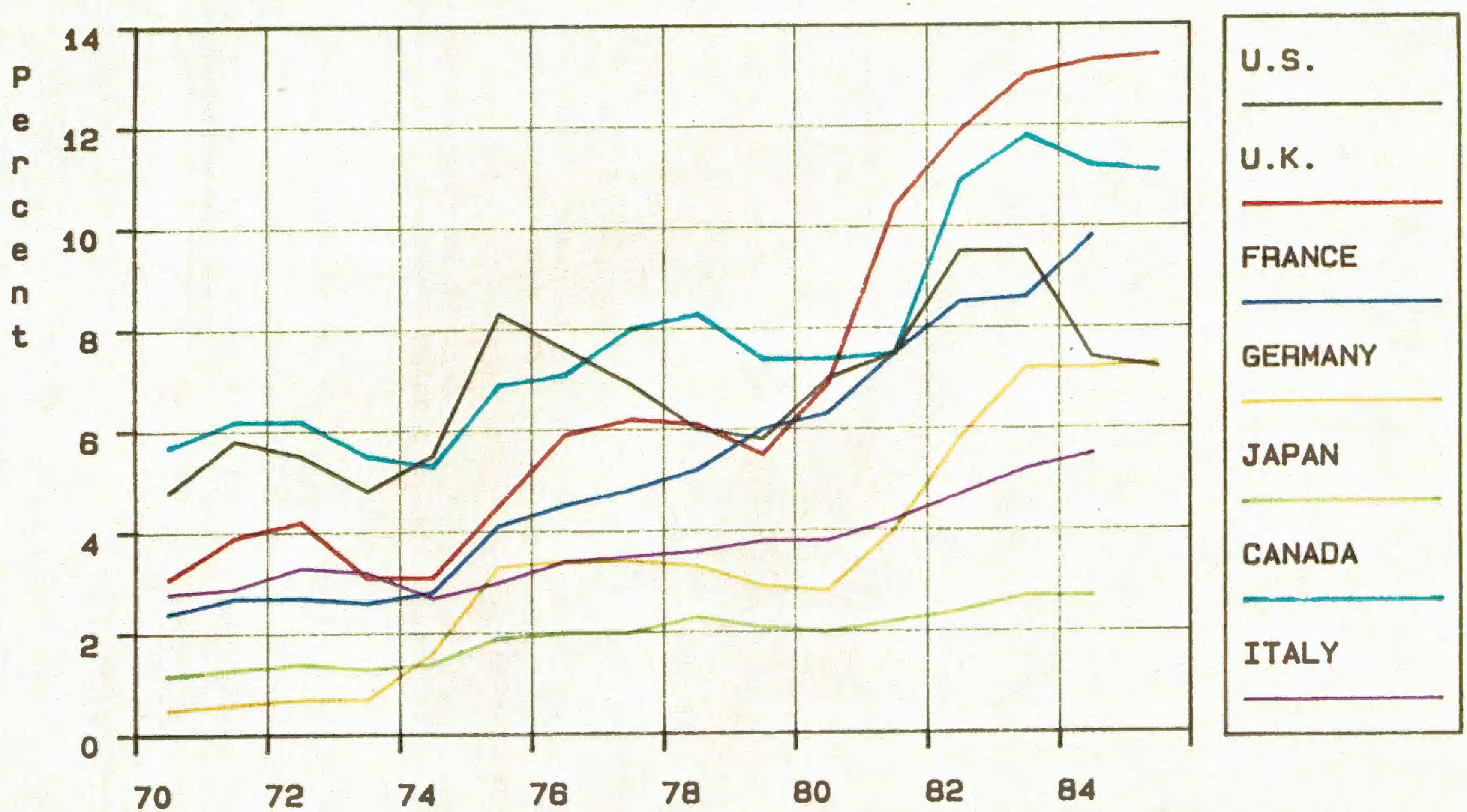
-- European and Canadian labor markets have not made this kind of adjustment.

-- We project continued high rates through 1986 for Canada and Western Europe.

-- From 1970 to the end of 1984 the U.S. economy created 27.6 million new jobs. Over the same period the four European Summit countries experienced a net loss of 0.5 million jobs; Canada created 3.2 million jobs.

Unemployment Rates

(Total Labor Force, U.S. Concept)



Annual rates, except 1985 which is January for UK

Canada & Germany; February for US; NA for others

Trade Account Balances
($ Billion)

	1983	1984	1985†	1986†
U.S.	-61.1	-107.4	-116.7	-156.3
U.K.	-1.8	-5.7	-4.7	-2.6
France	-7.6	-3.7	-1.2	-0.6
Germany	16.3	19.0	19.1	29.6
Japan	31.5	44.4	53.3	61.4
Canada	14.8	14.4	16.1	14.8
Italy	-3.1	-6.4	-5.8	-2.2

Trade Account Balances
(as Percent of GNP/GDP)

	1983	1984	1985†	1986†
U.S.	-1.8	-2.9	-2.9	-3.7
U.K.	-0.4	-1.3	-1.2	-0.6
France	-1.5	-0.7	-0.3	-0.1
Germany	2.5	3.1	3.5	5.1
Japan	2.7	3.6	4.5	4.8
Canada	4.5	4.9	4.5	5.1
Italy	-0.9	-1.8	-1.7	-0.6

-- U.S. trade deficit forecast to increase modestly this year; expanding rapidly again in 1986, assuming dollar stays at recent levels.

-- Counterpart to higher U.S. deficit is rising surpluses of other industrial countries, including Japan, Germany, and Canada, and lower LDC deficits.

-- Persisting deficits in the U.K., France, and Italy in the face of substantially stronger growth outlook in Europe reflects relatively weaker competitive positions of those economies.

-- Talk centers on the dollar value of U.S. deficit. But as a percent of GNP, trade imbalances of Japan, Germany, and Canada are larger than that of U.S.

†Treasury Forecast

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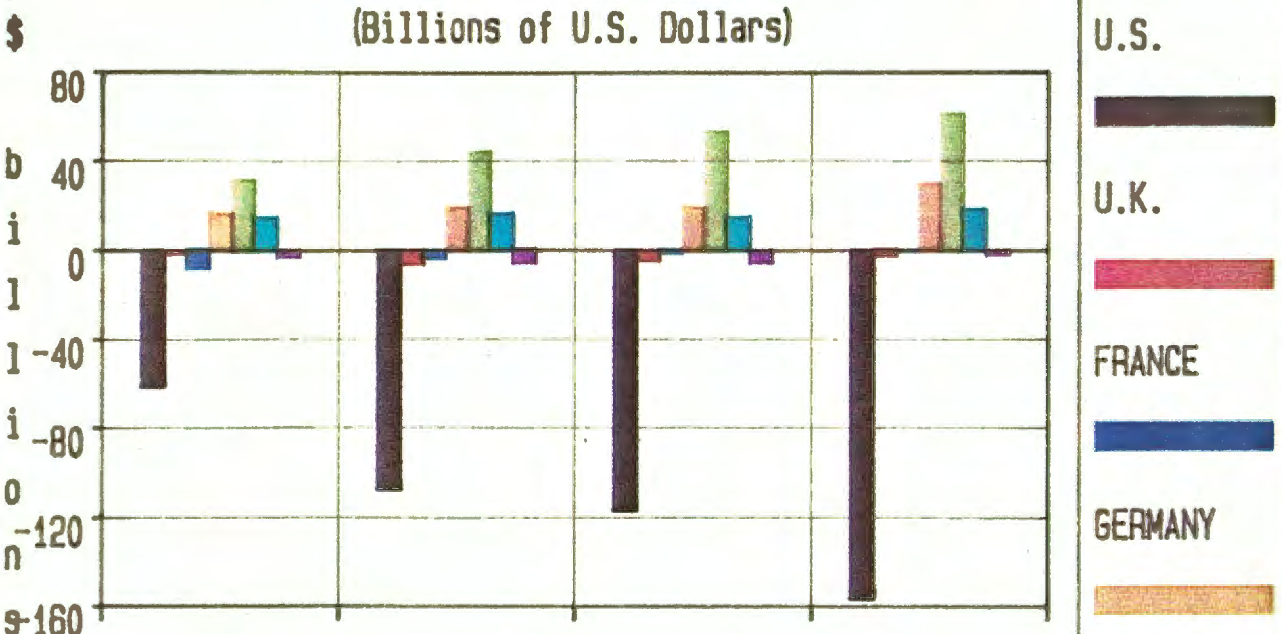
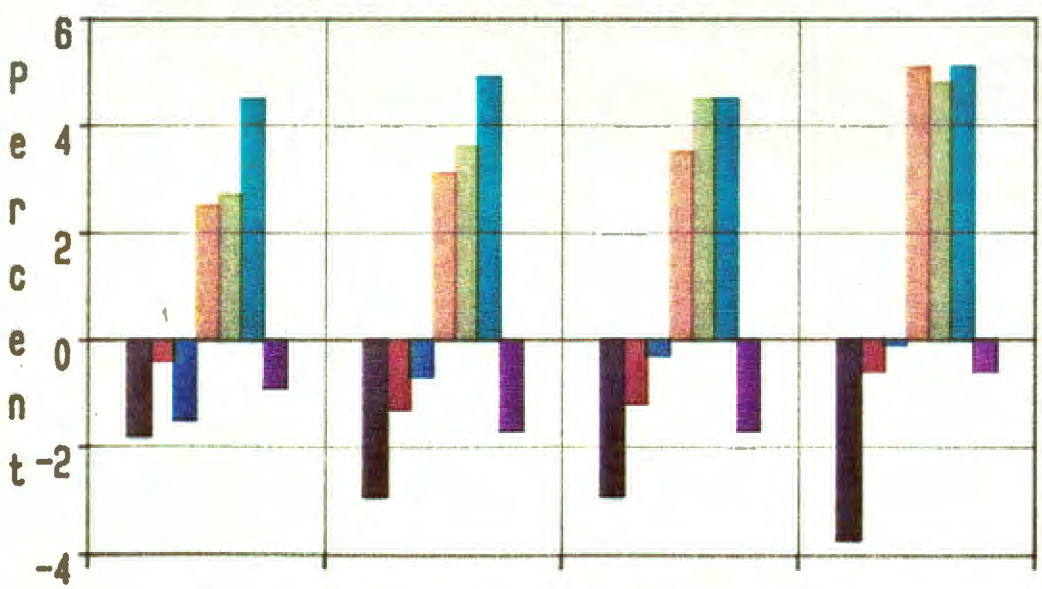
Trade Account Balances
(Billions of U.S. Dollars)



Trade Account Balances
(As Percent of GDP/GNP)



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Current Account Balances
($ Billion)

	1983	1984	1985†	1986†
U.S.	-41.6	-101.6	-109.0	-154.0
U.K.	3.9	0.1	0.9	5.1
France	-3.8	0.0	1.0	4.4
Germany	4.0	6.3	8.2	15.7
Japan	20.8	35.0	45.6	55.0
Canada	1.4	1.5	0.4	2.7
Italy	0.8	-3.1	-3.3	0.1

Current Account Balances
(as Percent of GDP/GNP)

	1983	1984	1985†	1986†
U.S.	-1.3	-2.8	-2.8	-3.6
U.K.	0.8	0.0	0.2	1.1
France	-0.8	0.0	0.2	0.8
Germany	0.6	1.0	1.5	2.7
Japan	1.8	2.8	3.9	4.3
Canada	0.4	0.5	0.1	0.8
Italy	0.2	-0.9	-1.0	0.0

-- Except for the U.S., all Summit countries are expected to have current account surpluses in 1986 (though Italy's is quite small).

-- Surpluses in invisibles (interest, travel, shipping charges, etc.) accounts will offset merchandise trade deficits of U.K., France, and Italy.

-- As a share of GNP, Japan's current account surplus in 1985 (3.9%) is expected to be larger than the U.S. current account deficit (2.8%).

†Treasury Forecast

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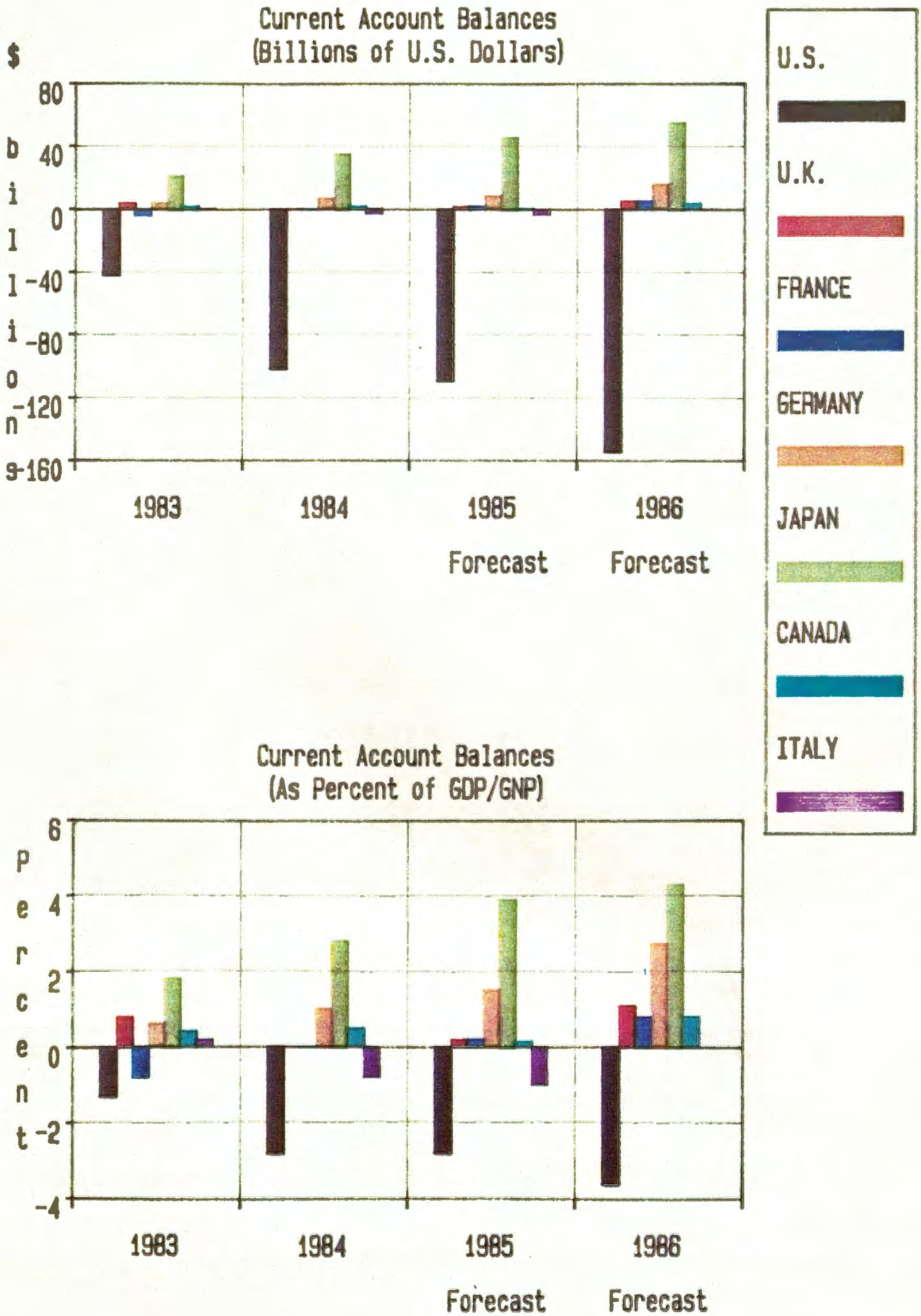

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Public Sector Deficit as Percent of GNP/GDP*
(Federal, State and Local, plus Social Security)

	1983	1984	1985†	1986†
U.S.	4.1	3.4	3.5	2.6
U.K.	4.0	3.0	2.6	1.8
France	3.3	3.5	4.1	4.7
Germany	2.7	2.3	1.6	1.1
Japan	3.3	3.0	2.7	2.4
Canada	6.2	6.4	4.3	2.9
Italy	16.6	16.6	17.6	17.5

*Actual Italian figures were truncated on the graph for ease of comparison.

-- As a share of GNP, U.S. public sector deficit is in line with most other Summit countries.

-- U.S. deficit forecast to drop from 1983 rate of 4% to about 2.5% in 1986.

-- All countries, except France and Italy have reduced government deficit as a percent of GNP/GDP. Significant reduction forecast for Germany and Canada.

Public Sector** Expenditures
(As Percent of GDP/GNP)

	1983	1984	1985†	1986†
U.S.	35.3	34.3	34.9	34.2
U.K.	44.5	44.7	43.3	42.1
France	48.6	49.6	49.4	49.0
Germany	48.9	48.6	47.5	46.4
Japan	32.4	31.1	30.2	29.4
Canada	48.0	49.0	47.9	46.8
Italy	58.5	59.2	60.4	60.3

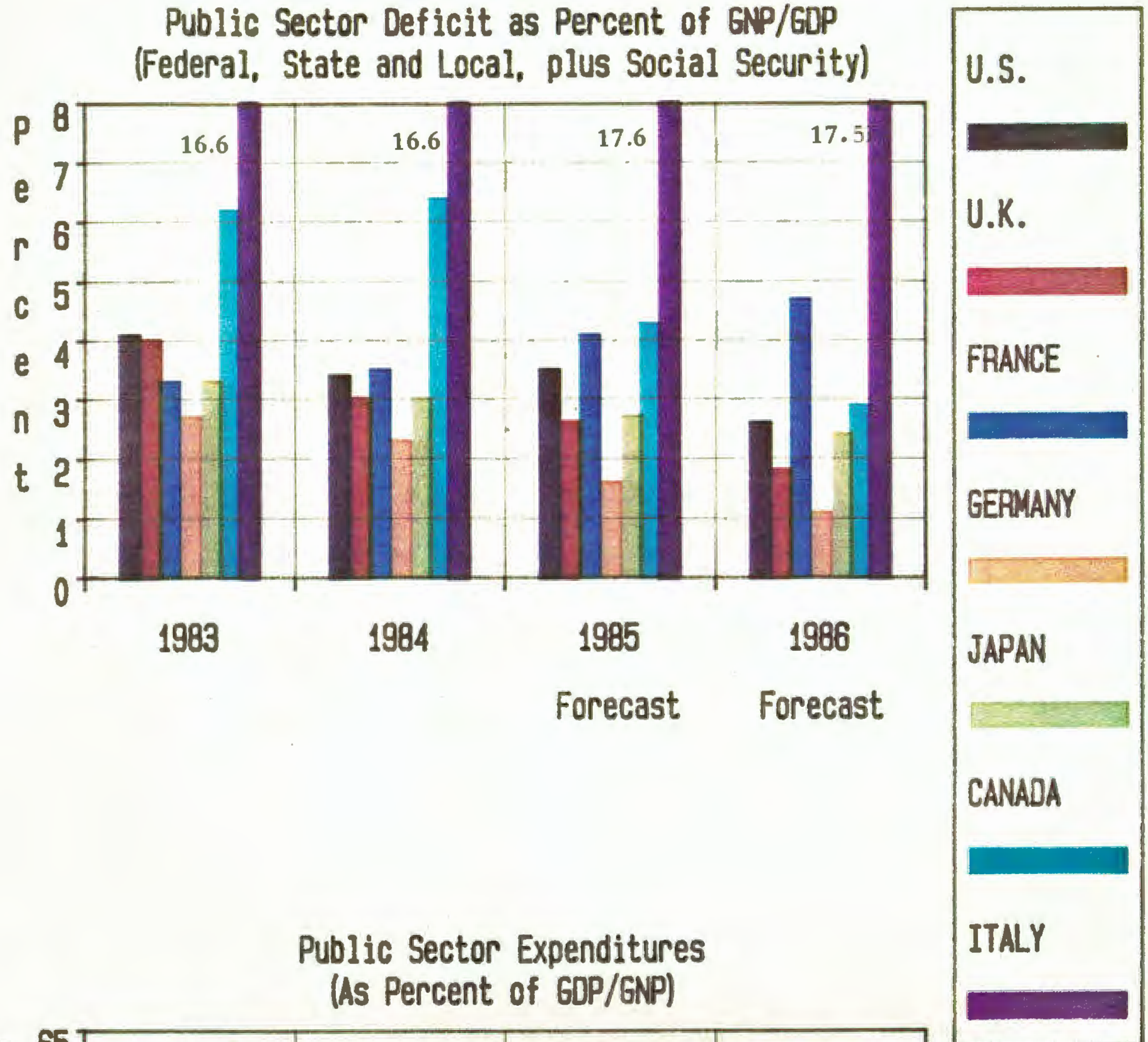
-- Best measure of role of government in different countries since all levels of government are included.

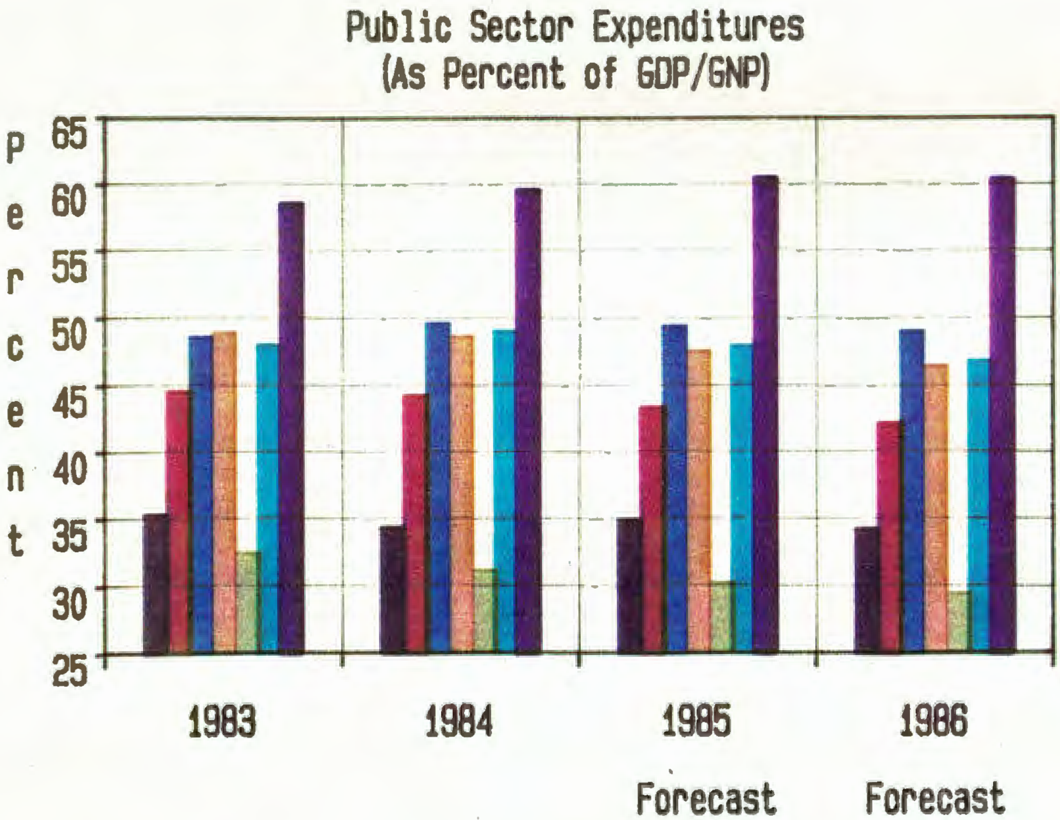
-- Smallest public sector expenditures in U.S. and Japan (34% and 31%, respectively in 1984). Others much higher, 45-60% range.

-- Sizeable government sector takes resources from private sector.

-- All except Italy expected to decline slightly.

† Treasury Forecast
** Federal, State and Local, plus Social Security


Public Sector Deficit as Percent of GNP/GDP
(Federal, State and Local, plus Social Security)
percent
0
1
2
3
4
5
6
7
8
16.6
16.6
17.6
17.5
1983
1984
1985
Forecast
1986
Forecast
U.S.
U.K.
FRANCE
GERMANY
JAPAN
CANADA
ITALY


Public Sector Expenditures
(As Percent of GDP/GNP)
percent
25
30
35
40
45
50
55
60
65
1983
1984
1985
Forecast
1986
Forecast

Central Government* Deficit as Percent of GNP/GDP**

	1983	1984	1985†	1986†
U.S.	5.4	4.8	4.7	3.6
U.K.	4.8	3.2	2.6	1.9
France	3.2	3.3	3.7	4.0
Germany	1.6	1.3	1.0	0.8
Japan	5.0	4.7	4.3	3.9
Canada	6.2	7.0	5.7	4.6
Italy	13.6	15.4	16.0	16.5

**Actual Italian figures were truncated on the graph for ease of comparison.

-- As share of GNP, U.S. federal deficit is in line with most other Summit countries. But hard to compare between countries due to different structures of government.

Central Government* Expenditures
(As Percent of GNP/GDP)

	1983	1984	1985†	1986†
U.S.	24.8	24.0	24.4	23.4
U.K.	40.2	40.0	38.7	37.7
France	23.2	22.1	21.8	21.8
Germany	16.5	16.2	15.7	15.3
Japan	18.5	17.8	17.2	16.8
Canada	24.2	25.5	25.0	24.6
Italy	46.7	48.1	49.0	49.0

-- All countries, except U.K. and Italy, are holding central government expenditures within roughly 25% of GNP/GDP. Again misleading due to differing structures of government. See Public Sector Charts for comparative role of government in Summit countries.

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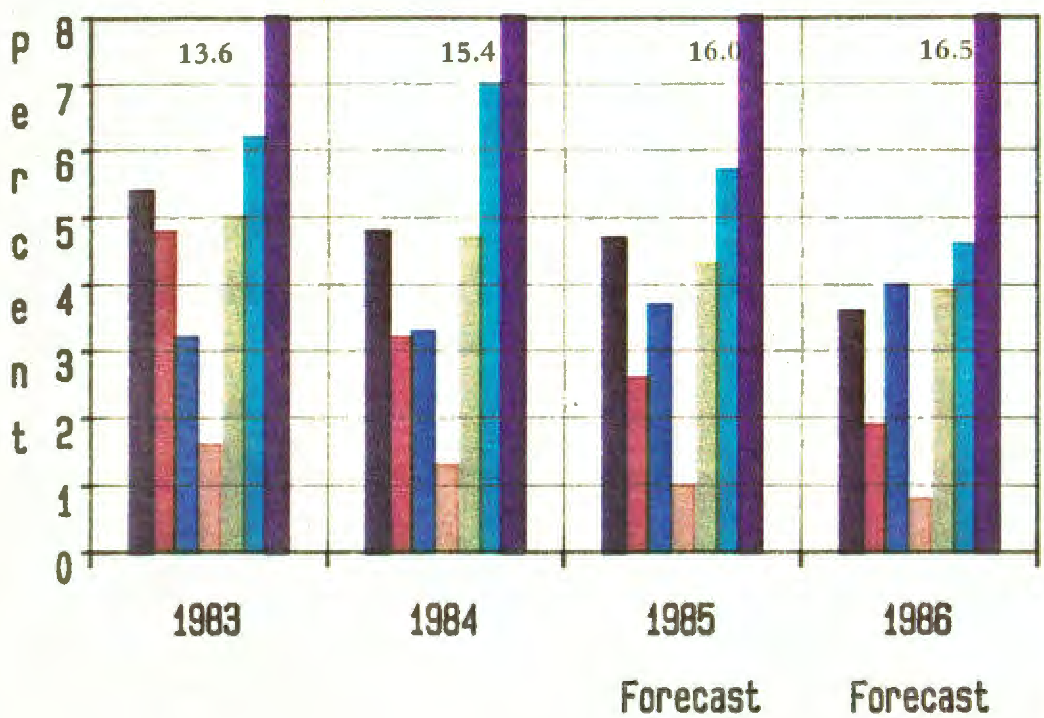
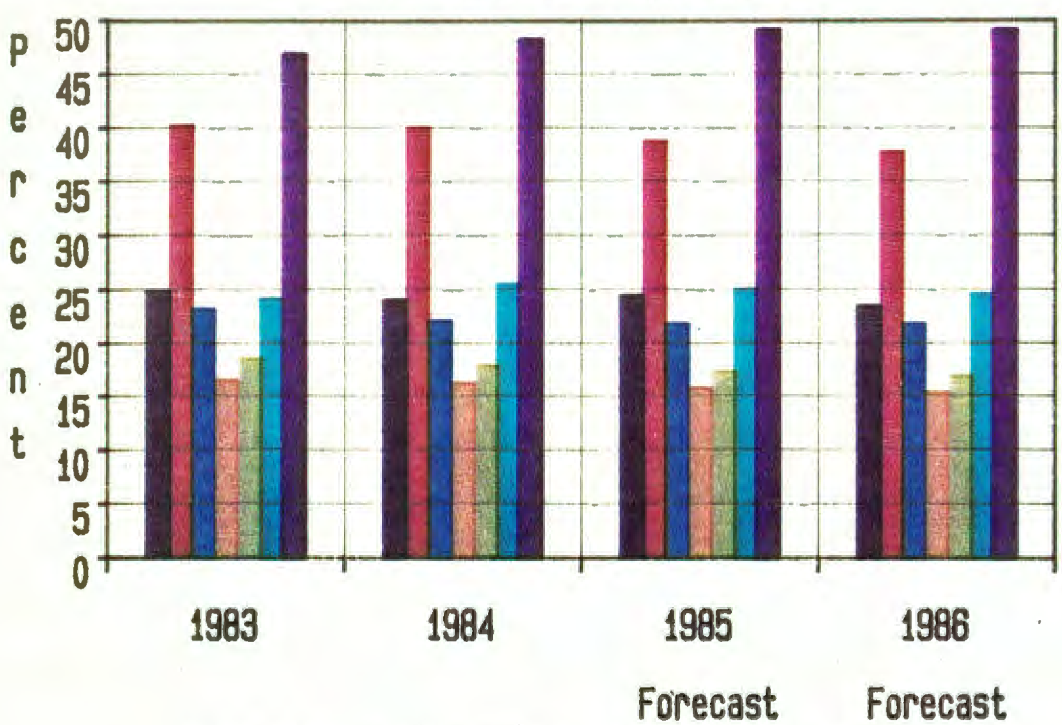
* These figures exclude public enterprises, state and local governments, making accurate cross-country comparisons difficult.

† Treasury Forecast

Central Government Deficit as Percent of GNP/GDP



Central Government* Expenditures
(As Percent of GDP/GNP)



*Excludes public corps, state and local govts

Nominal 3-Month Interest Rates
(Annual Averages)

-- In all countries except U.K., there has been a significant decline in interest rates over the last 4 years. For U.S., Germany, and Canada the drop has been the greatest.

-- Japanese rates strikingly low; Italian rates high.

-- Declines reflect significant improvement in inflation; U.K. exception.

-- U.K. rates in March 1985 still high following action by authorities in early 1985 to tighten policies to shore up sterling.

Real 3-Month Interest Rates
(Nominal rate minus inflation, annual averages)

Real interest rates measure a rate of return to physical capital in the economy. Rate should be positive. Indicates expected profitability of investments.

Real interest rates are calculated by subtracting inflation expectations from nominal interest rates. Caution should be used in interpreting this graph, since expectations are difficult to measure*.

-- Real rates have remained high over the last 4 years, indicating that expectations regarding future inflation have not fully adjusted to the actual success in lowered inflation.

-- U.S. real rate lower than all but Germany, Japan.

-- Real rates of about 4 percent in Germany the lowest; German complaints that their real rates are too high are not justified.

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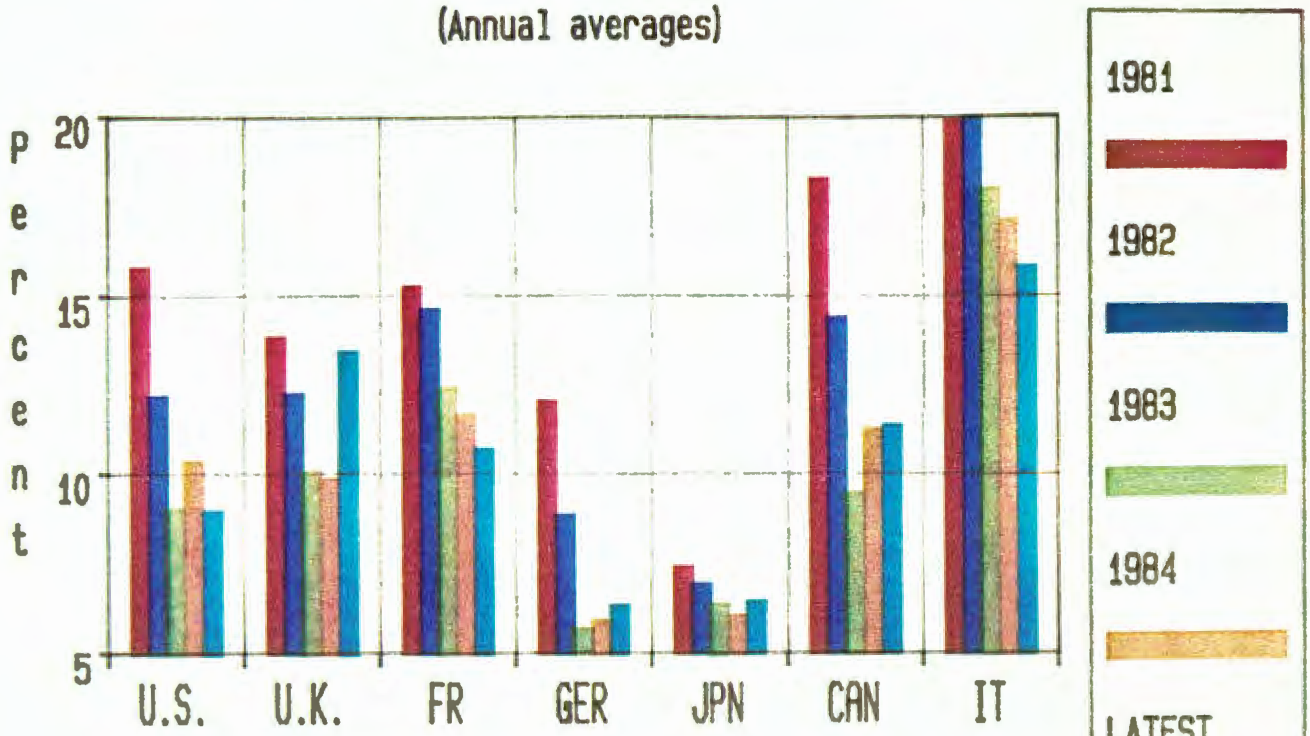
* Inflation expectations measured as 3-month moving average of month-to-month change (annualized) in CPI.

Nominal 3-Month Interest Rates

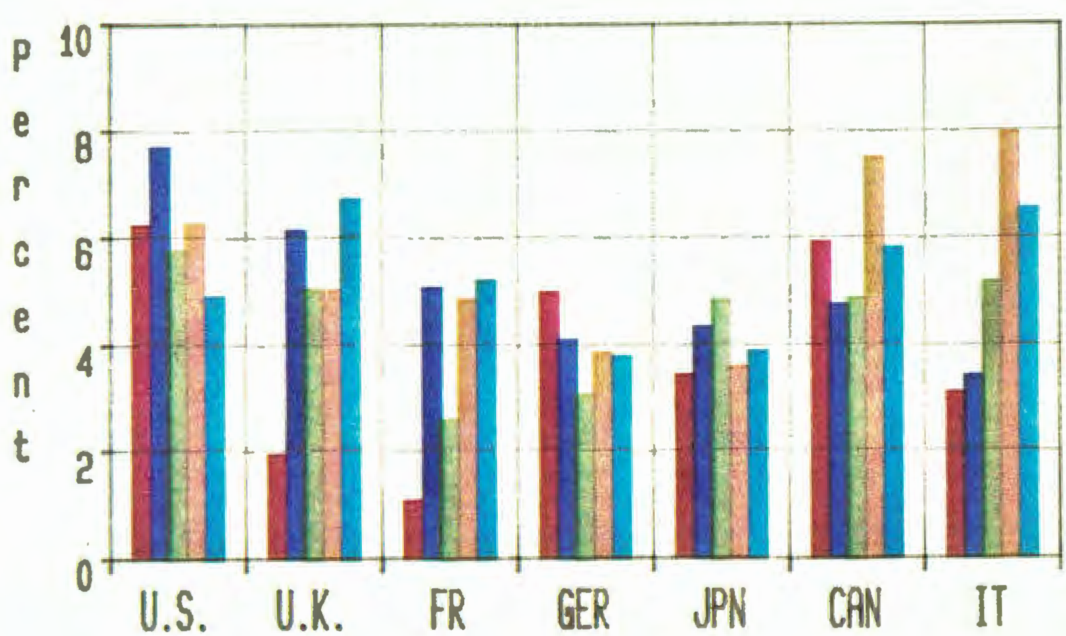
(Annual averages)



Latest Observation is March 1985

Real 3-Month Interest Rates

(Nominal rate minus inflation, annual averages)



Latest Observation is February 1985 for US, UK, JPN, CAN, IT, GER; January 1985 for FR

Exchange Rate Changes: U.S. Dollar vs. other Currencies
(Percent Change Since December 1980)

Chart presents bilateral exchange rates between dollar and currencies of other Summit countries from December 1980 until April 1985 (average of April 1-3). Upward movements indicate dollar appreciation.

-- U.S. dollar has risen the most against the Italian lira (113%) and French franc (109%) and the least against the Canadian dollar (15%).

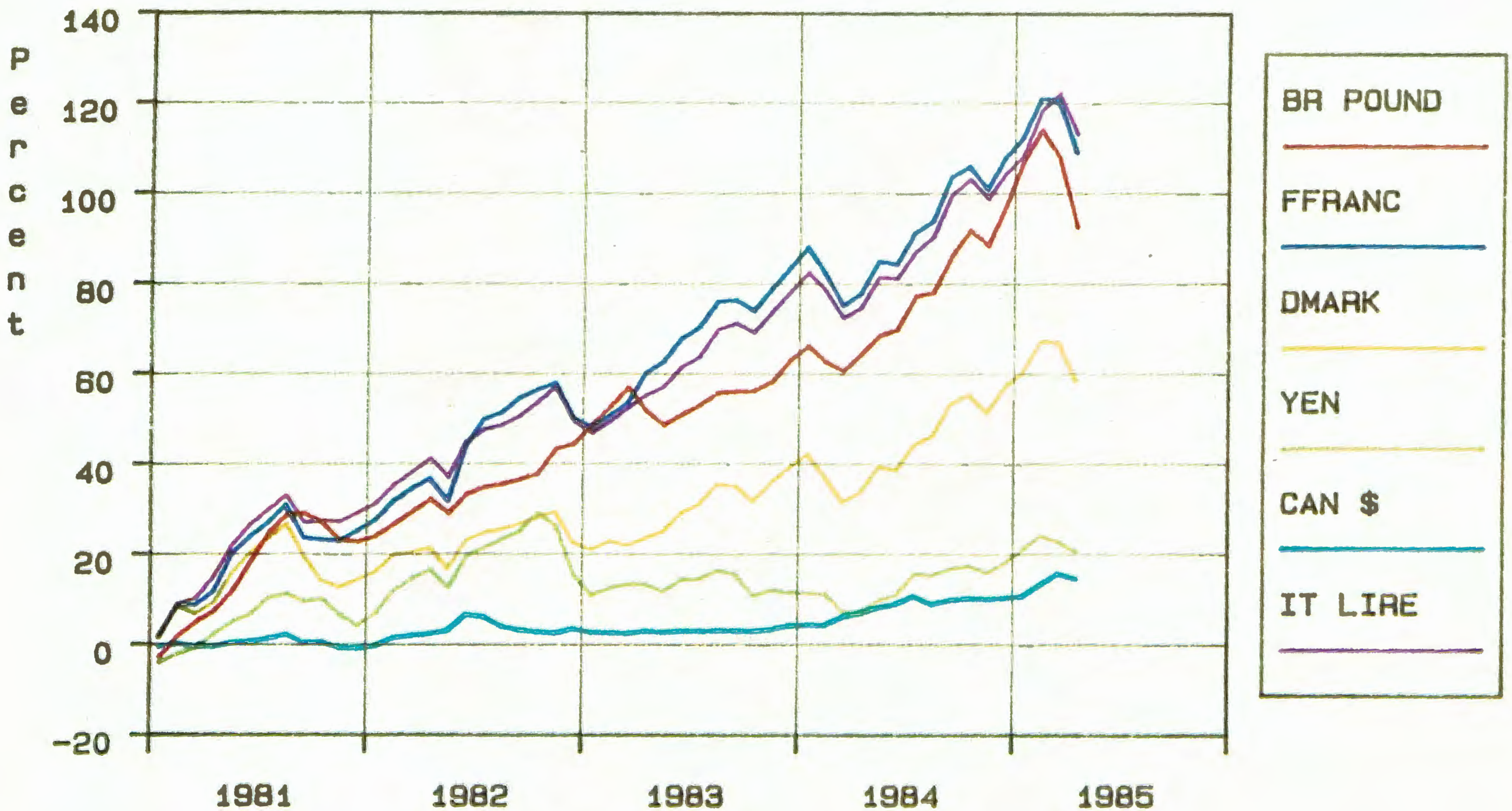
-- During late March 1985 the U.S. dollar declined sharply from its peak against all currencies except the Canadian dollar.

-- Yen and Canadian dollar strength against dollar compared to European weakness indicates European problems not just dollar strength. Points to market reaction to structural problems in Europe.

-- Yen's strength against European currencies reflected in rise of 35% since end-1980 against DM, 70% against sterling and 80% against franc.

Exchange Rate* Changes: U.S. Dollar vs:

(Percent Change Since December 1980)



Monthly Averages; April 1985: 4/1 to 4/3

Upward movement indicates dollar

Total Change in Civilian Employment
(Millions of Jobs)
1974-84

-- Over the last 10 years, U.S. created almost 20 million jobs, while Europe actually lost jobs (-1.1 million in U.K., -1.5 million in Germany, -0.3 in France).

-- Japan, Canada, and Italy registered significant increases of 5.7 million, 2 million and 1.3 million jobs, respectively.

-- Clear evidence of European structural rigidities.

Unemployment Check As Percent of Last Paycheck

-- Data are indicative of differences, but not perfectly comparable.

-- Graph suggests job creation problems related to generous unemployment compensation (U.C.); lack of incentive to seek job.

-- In all, U.C. replaces over 50% of after-tax wages from prior job in 1st 6 mos (U.S. lowest, 53%; France highest, 97%). U.S. ratio down sharply in 2nd 6 mos; others stay high, or increase (UK & Canada); French decline due to mid-1984 change in unemployment system.

Youth as Percent of Unemployed and Labor Force

-- In all countries, disproportionately high youth unemployment: youth as % of unemployed (1st bar) greater than youth as % of labor force (2nd bar).

-- Suggests that barriers to entry, such as minimum wages, inadequate training, union rules, etc., are factors in youth unemployment.

-- Most striking in Italy where youths are over 60% of unemployed but less than 20% of labor force.

Long Term* Unemployment
(As Percent of Total Unemployment)

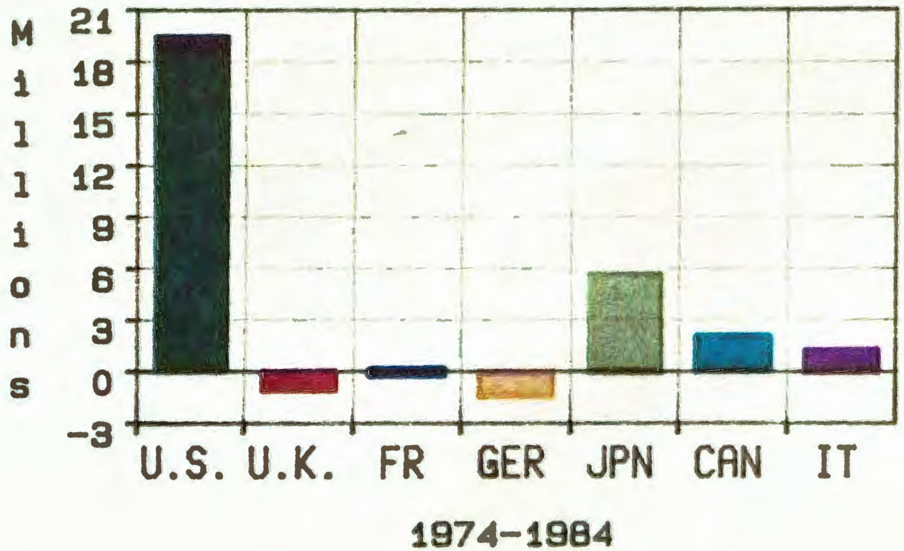
-- This graph shows severe long-term unemployment problems in U.K., France, and Germany, all countries with significant job loss and high unemployment.

-- Long-term unemployment is both symptom and result of structural problems in labor markets.

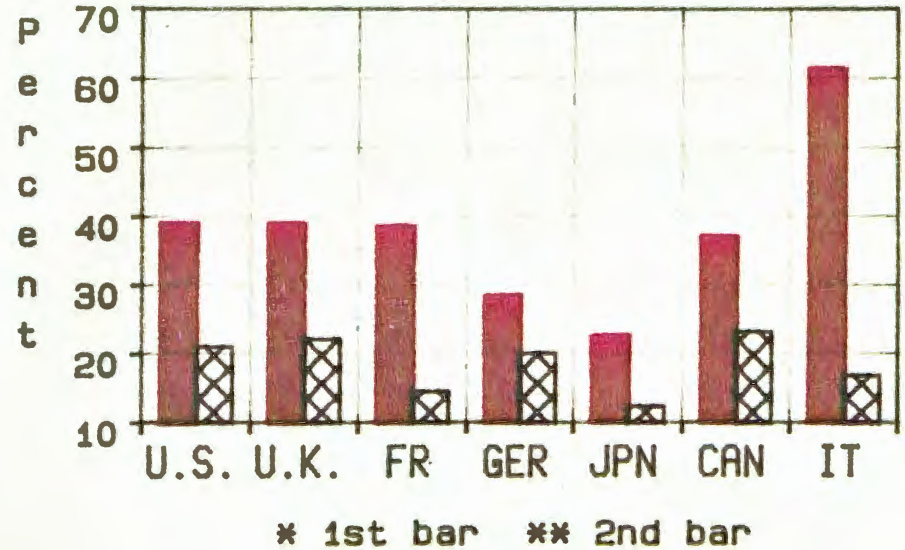
-- Governments should examine policies that create disincentives to work and result in mismatches in job skills (e.g., extended unemployment compensation benefits).

* At least 12 months unemployed

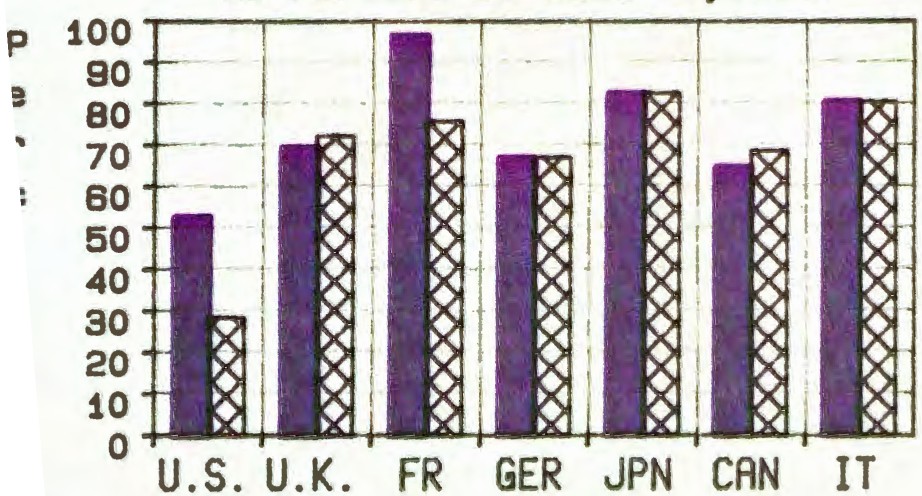
Total Change in Civilian Employment
(Millions of Jobs)



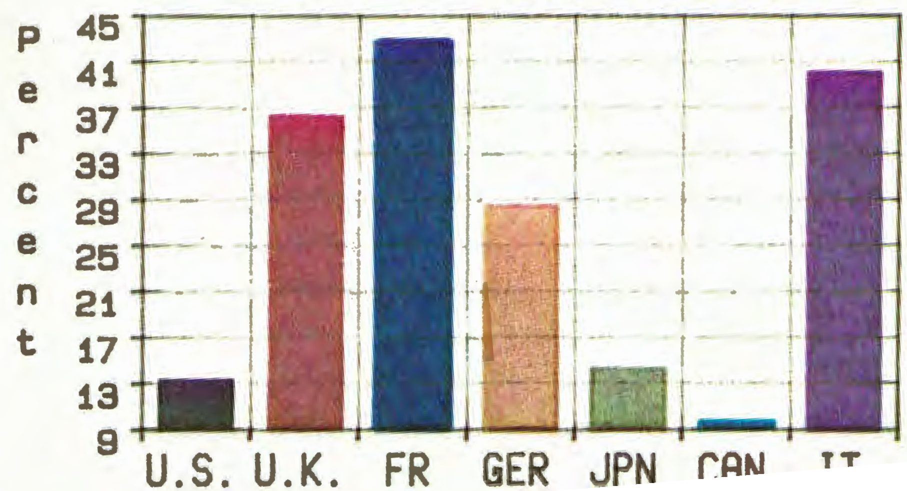
Youth as Percent of Unemployed*
and Labor Force**



Unemployment Check
As Percent of Last Paycheck



Long Term* Unemployment
(As Percent of Total Unemployment)



~~CONFIDENTIAL~~ ATTACHMENTS

Memorandum

db 9/4/13

ACTION	BRIEFING	INFORMATION

FOR: SECRETARY BAKER

DATE:

FROM: Acting Assistant Secretary Conrow

SUBJECT: Background Materials for Briefing the President on the Summit

Attached are several items for your meetings over the next few days with staff and with the President on Summit-related issues.

1. Your briefing with President Reagan on Thursday at 12:15 p.m. is to cover bilaterals during the Summit trip and the Spain/Portugal trip, and to discuss the Summit political agenda. Secretary Shultz will do the briefing on the bilaterals, although you may wish to comment on economic issues.

   -- At Tab 1 is an outline of the meeting followed by checklists you may wish to use on economic issues for the various bilaterals.

2. We are briefing you tomorrow morning on the Summit, to prepare for the Monday briefing of the President on Summit issues and to give you background on other issues that are likely to arise in your separate Summit meetings of G-7 Finance Ministers.

   -- At Tab 2 is an outline for the Monday meeting with the President, and the talking points that Dr. Sprinkel, as a member of the Sherpa team, will use on economic policy and debt issues at that meeting. We will give you the talking points on the monetary issues on Thursday.

   -- At Tab 3 is an overview schedule of Summit activities and the G-7 Finance Ministers' agenda.

~~CONFIDENTIAL~~ ATTACHMENTS

	INITIATOR	REVIEWER	REVIEWER	REVIEWER	REVIEWER	SECRETARIAT
OFFICE CODE SURNAME	IMI/CCANNON	IMI/RCFAUVER				
INITIALS / DATE	CC / 4/24/85	RCF / 4/24	/	/	/	/

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PRESIDENTIAL BRIEFING

EUROPEAN TRIP

April 25, 1985

12:15 p.m. - 1:45 p.m.

Family Dining Room

AGENDA

I. Overview of Bilateral Aspects and Introduction of Film . . . . Robert C. McFarlane

II. Country-by-Country Review. . . . . Secretary Shultz

- A. FRG
- B. Spain
- C. Strasbourg, France
- D. Portugal
- E. Bilateral Meetings on Margins of Bonn Summit
  - -- Nakasone
  - -- Mitterrand

III. Summit's Political Agenda. . . . . Secretary Shultz

IV. Discussion . . . . Principals

V. Public Diplomacy Aspects . . . . Ambassador Rentschler

PARTICIPANTS LIST: Working Lunch, April 25, 1985

The Vice President

Secretary Shultz

Secretary Weinberger

Secretary Baker

Donald T. Regan

Robert C. McFarlane

Michael K. Deaver

David L. Chew

Larry M. Speakes

William Henkel

Assistant Secretary Burt

James M. Rentschler, U.S. Ambassador to Malta

William F. Martin

Robert B. Sims

Douglas W. McMinn, NSC Staff

Peter R. Sommer, NSC Staff

Tyrus W. Cobb, NSC Staff

Deputy Assistant Secretary Niles

Reagan-Kohl
Bilateral

Checklist for
Secretary Baker
Briefing the President

1. Meeting is Thursday, May 2, 11:55 a.m. (will be preceded at 11:10 a.m. by one-on-one).

2. Economic Situation

   - Moderate growth; 2.6% in '84, about 3% expected in '85.

   - Inflation lowest in 15 years, (2.5%).

   - Unemployment has remained at postwar 9% peak, in past 2 years.

3. Bilateral Issues

   - No major issues.

   - Germans, traditionally strong free trade voice, concerned by potential for protectionist explosion in U.S. and elsewhere.

4. Bonn Summit

   - Germans favor trade round but refuse to press French.

   - Opposed to monetary conference

   - Concerned about international financial implications of large U.S. budget deficits.

Spain

Checklist for
Secretary Baker
Briefing the President

1. Economic Situation

-- Aside from an increase in unemployment (20 percent last year), Spanish economic conditions improved considerably in 1984. Labor market conditions are heavily burdened by government regulation.

-- Real growth was 2.5% in 1984, due to strong growth of exports and public spending.

-- Government deficit estimated to have declined slightly to 5.5% of GDP last year.

-- Spain's current account position shifted to a surplus of $1 billion from a deficit of $3.4 billion in 1983. (Exports to the U.S. rose 75 percent).

-- Inflation decelerated in 1984 to a 8.9 percent rise. A slight reduction is expected for 1985.

-- Government policies have contributed to inflexibility in Spanish labor markets. Substantial payments required when a worker is dismissed; collective lay-offs must be approved by an administrative panel; economy wide collective bargaining has led to sharp increases in real wages since 1976.

2. Bilateral Issues

-- Spanish likely to complain about U.S. protectionism. About two-thirds of their exports to the U.S. are affected by either countervailing duties to offset subsidies or by agreed limits on their steel exports. We will drop our countervailing duties when Spain stops subsidizing.

Portugal

Checklist for
Secretary Baker
Briefing the President

1. Economic Situation

-- Because of problems with the fiscal targets, Portugal let its IMF stand-by arrangement to expire in February of this year. The final two drawings from the Fund were not made.

-- While authorities engineered rapid turnaround in the balance of payments in last couple of years, they have failed to make progress in much-needed fiscal reforms.

-- Domestic economy weak; inflation remains high.

-- Serious problems in government sector: government absorbed workers from former colonies creating bloated, inefficient public sector.

-- Need to get private sector going as source of growth, employment.

-- EC membership will put competitive strains on economy.

2. Bilateral Issues

-- The U.S. recently asked Portugal to negotiate export quotas on a few textile product exports which are disrupting the U.S. industry.

-- These actions are consistent with the rules followed by most textile trading nations (the Multi-Fiber Arrangement), although Portugal is not a signatory.

Reagan-Nakasone
Bilateral

Checklist for Secretary Baker Briefing the President

1. Meeting is Thursday, May 2, 2:15 p.m.

2. Economic Situation:

   -- Strong economic growth.

      - 5.8% in '84; exports largest factor.

      - In '85 expect slower, 4.7% growth.

   -- Inflation lowest in OECD: (2.3% in '84).

   -- Unemployment low: (2.7% in '84).

   -- Problem areas:

      - Large global trade/current account surplus; friction with trading partners. (Trade surplus -- $44 billion in '84; expect $53 billion in '85.)

      - GOJ worried about future debt management, wants to reduce government deficit in medium term.

3. Bilateral Issues

   -- Trade: 1984 U.S. bilateral deficit: $34 billion (U.S. data).

   -- Nakasone's April 9 statements about need to open markets/ import more were commendable.

   -- Essential now:

      - 3-year Action Program promised for July be credible;

      - Rapid progress in MOSS talks. (Note: telecom went well thanks to Nakasone's intervention.)

   -- Capital Market Liberalization: Welcome steps taken so far.

      - More progress needed, e.g., interest rate deregulation.

      - Over time, will help trade effort through stronger yen.

4. Bonn Summit (Japan's position, if raised:)

   -- Afraid of being singled out for explicit commitment to open markets.

   -- Supports new trade round; but will stay out of U.S./French conflict.

Reagan-Mitterrand
Bilateral

Checklist for Secretary Baker Briefing the President

1. Meeting set for Thursday, May 2, 3:00 p.m.

2. Economic Situation

   o GNP growth continues to lag behind industrial countries: 2% in 1984; expect 1.5% in 1985. Export growth only source of strength. U.S. expansion provided 85% of French growth in 1983-84.

   o Inflation cut in half in three years but still above most summit countries: 7.4% in 1984.

   o Problem areas:

   - Rising unemployment: 10.5% at end-1984; expect 11% by end-1985. Structural problems.

   - Public sector expenditures high: 50.0% GDP in 1984.

3. Bilateral Issues

   o Monetary Issues

   - French approach to monetary issues reflects domestic economic situation:

     - Trade/monetary link to delay launching new round.

     - Blame growth/employment problems on exchange rate system.

     - Seek agreement to limit exchange rate movements; traditionally have favored fixed rates.

     - Thus want to host special Interim Committee session before election to deflect attention from domestic problems.

   - Mitterrand will argue that:

     - G-10 monetary studies are inadequate.

     - Measures to limit exchange rate changes essential for trade liberalization.

     - France should host special IMF Interim Committee meeting.

   - The President should state that:

- The G-10 studies contain concrete, realistic steps to improve system and warrant our strong support.

- Sound domestic policies and convergent performance toward sustainable non-inflationary growth is the essential prerequisite for greater exchange rate stability. Don't believe fundamental reform of system to limit exchange rate movements is practical or desirable.

- Indicate that the U.S., as the leading economic/financial country, is prepared to consider hosting a high-level meeting of major industrial countries on monetary issues.

o Tied Aid Credits: French resist reduction of subsidized export credits. Fought compromise efforts at OECD Ministerial.

4. Bonn Summit (if raised)

o France will push for monetary conference to study reforms.

o Will resist "early 86" trade round. Argue that success of trade negotiations requires 1-2 year preparation and planning period.

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PRESIDENTIAL BRIEFING

BONN ECONOMIC SUMMIT

Monday, April 29, 1985
12:00 ~~12:15~~ p.m. - ~~1:45~~ p.m. 1:30
Family Dining Room

AGENDA

I. Issue-by-Issue Review of Economic Agenda

A. Overview of Economic Aspects

Introduction:	Robert C. McFarlane
U.S. Objectives and Tactics:	Under Secretary Wallis
Positions of Other Heads of State:	Under Secretary Wallis
Discussion:	President, Cabinet Officers and Senior White House Staff

B. Economic Outlook (structural rigidities, fiscal policies and exchange rates)

Introduction:	Robert C. McFarlane
U.S. Objectives and Tactics:	Dr. Sprinkel
Positions of Other Heads of State:	Dr. Sprinkel
Discussion:	President, Cabinet Officers and Senior White House Staff

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C. Relations with Developing Countries (growth, debt debt and report of results of Interim Committee/ Development Committee meetings)

Introduction:	Robert C. McFarlane
U.S. Objectives and Tactics:	Dr. Sprinkel
Positions of Other Heads of State:	Dr. Sprinkel
Discussion:	President, Cabinet Officers and Senior White House Staff

D. Africa

Introduction:	Robert C. McFarlane
U.S. Objectives and Tactics:	Ambassador Morris
Positions of Other Heads of State:	Ambassador Morris
Discussion:	President, Cabinet Officers and Senior White House Staff

E. Trade

Introduction:	Robert C. McFarlane
U.S. Objectives and Tactics:	Mr. McMinn
Positions of Other Heads of State:	Mr. McMinn
Discussion:	President, Cabinet Officers and Senior White House Staff

F. Monetary Issues

Introduction:	Robert C. McFarlane
U.S. Objectives and Tactics:	Dr. Sprinkel
Positions of Other Heads of State:	Dr. Sprinkel
Discussion:	President, Cabinet Officers and Senior White House Staff

G. Environment and Energy

Introduction:	Robert C. McFarlane
U.S. Objectives and Tactics:	Under Secretary Wallis
Positions of Other Heads of State:	Under Secretary Wallis
Discussion:	President, Cabinet Officers and Senior White House Staff

H. Manned Space Station

Introduction:	Robert C. McFarlane
U.S. Objectives and Tactics:	Under Secretary Wallis
Positions of Other Heads of State:	Under Secretary Wallis
Discussion:	President, Cabinet Officers and Senior White House Staff

SUMMIT WHITE HOUSE GROUP MEETING WITH THE PRESIDENT

Monday, April 29, 1985

LIST OF PARTICIPANTS

The Vice President

George P. Shultz, Secretary of State

James A. Baker, Secretary of the Treasury

William E. Brock, United States Trade Representative

Donald T. Regan, Chief of Staff and Assistant to the President

Michael K. Deaver, Deputy Chief of Staff and Assistant to the President

Robert C. McFarlane, Assistant to the President for National Security Affairs

Larry M. Speakes, Assistant to the President and Principal Deputy Press Secretary

John A. Svahn, Assistant to the President for Policy Development

Richard G. Darman, Deputy Secretary of the Treasury

Beryl Sprinkel, Chairman-designate, Council of Economic Advisers

W. Allen Wallis, Under Secretary of State for Economic Affairs

David L. Chew, Deputy Assistant to the President and Staff Secretary

William Henkel, Deputy Assistant to the President and Director of Presidential Advance

Alfred H. Kingon, Deputy Assistant to the President and Cabinet Secretary

Richard Burt, Assistant Secretary of State for European and Canadian Affairs

James Rentschler, U.S. Ambassador to Malta

William F. Martin, Special Assistant to the President for National Security Affairs and Senior Director for Coordination

Douglas W. McMinn, Director for International Economic Affairs, National Security Council

Robert J. Morris, Deputy to the Under Secretary of State for Economic Affairs

Economic Outlook

Introduction: Robert C. MacFarlane

- Mr. President, the first agenda item -- and a major focus of attention -- at the Bonn Summit economic discussions is the economic outlook and ways to sustain the expansion.
- As you know, over the past two years each successive Summit has occurred in a better economic climate. The recovery we talked about at Williamsburg and London is now behind us. All of the Summit economies are in the expansion stage of the business cycle.
- The efforts to follow anti-inflation, pro-growth policies -- most marked in the United States and to a much lessor degree in Europe -- have resulted in a broad-based expansion that is taking place in a low inflation environment. Unfortunately, Europe has not been as successful as we have to date. And despite our shared successes, problems remain in all the Summit economies.
  - In all countries government expenditures, budget deficits, or both, are too large.
  - All our economies face structural rigidities which hinder job creation and sustained growth.
  - And all of us need to promote freer trade.
- At Bonn your discussions will address these shared problems and our individual responsibilities for solving them.
- Beryl Sprinkel will review our objectives and those of our Summit partners.

Presenter: Beryl W. Sprinkel

U.S. Objectives and Tactics

Mr. President, in your discussions with your Summit colleagues, you will want to note the accomplishments of all Summit countries in improving economic performance.

- Good progress has been recorded in reducing disparities in growth and inflation performance in Summit countries. During 1984 all countries were recovering. Led by strong U.S. expansion, average growth rose from 2.8 percent in 1983 to 5.0 percent in 1984. Projections suggest continued narrowing of performance gap this year and next.
- Inflation continues to decline. Forecasts indicate inflation rates in industrial countries four years into the recovery will be lower than at the beginning, for the first time since the early 1960's.
- Despite these important growth and inflation gains, problems remain in Summmit countries. All of us must control government expenditures and deficits; remove structural rigidities; and promote trade liberalization.
- In Europe, job creation has been poor. After two years of recovery, unemployment rates have risen in Europe by: 2 points in France; 1 point in Italy; and 0.6 points in Germany and the UK. Heavy government intervention in these economies -- excessive government regulation, restrictive hiring/firing

laws, extensive social welfare programs and generous unemployment benefits; capital market rules and regulations -- have made them inflexible and have inhibited job creation. Businesses invest in labor saving capital equipment rather than add workers to payrolls. High tax rates reduce incentives for workers to find jobs.

- One objective at the Summit is to recognize explicitly the need for increasing the flexibility and market orientation of European economies. Our focus on structural rigidities is aimed at pointing out the problems.
- Japan's trade and current account surpluses continue to grow -- $35 billion current account surplus last year, $46 billion this year. As a share of GNP, it was the same as our deficit last year (2.8 percent) and will be larger than our deficit this year (3.9 percent vs. 2.8 percent). This imbalance increases protectionist pressures in the United States and Europe. That's why we started our bilateral trade talks last January. But more progress on opening Japan's economy to imports is needed. Thus another Summit objective is to push for greater access for foreign goods in Japan.
- Budget deficits are coming down in most Summit countries. But last year deficits in France and Canada rose (both are larger than ours). This year the UK, Germany, and Japan will have smaller deficits than we are projecting for the United States.
- But less progress has been made on reducing government expenditures as a share of GNP. We and Japan have ratios of

expenditures to GNP in the low 30 percent range, well below the ratios in Europe -- 45 to 60 percent. Nonetheless, all countries need to cut spending levels.

- We will want to convince others of your deep commitment to reducing our deficit through expenditure cuts. They will be anxious to receive an update on congressional negotiations on the budget package.
- Exchange rates are beginning to reflect the convergence in performance. The dollar is well off its peak of last February. In mid-April the dollar weakened temporarily with the announcement of first quarter GNP growth of 1.3 percent, weaker than expected. Markets seem worried about the sustainability of our expansion and the outlook for monetary policy. There were many special factors involved in the first quarter; we are likely to see a stronger advance during the rest of the year.

Positions of Other Heads of State

Mr. President, your Summit colleagues,

- Probably led by President Mitterrand -- will press you on our budget deficit. The French are still convinced that our deficit is causing high interest rates which take capital from Europe. Others simply blame the strong dollar and our large trade and current account deficits on the budget deficit. You will want to bring the others up to date on the congressional situation on the budget.

- The Japanese will be very reluctant to be singled out on trade matters. Nakasone will likely argue that Japan's economy is open to imports. We suggest that if we and the Japanese are to be singled out for specific commitments in the communique then our European friends must also be willing to be specifically directed to undertake actions to remove structural rigidities.
- Our European partners shy away from explicitly recognizing the problems caused by government rules/regulations and labor market laws. They would rather evade focus on the negative effects of their social policies.
- Should excessive focus develop on our budget deficit, you might counter that the most appropriate measure of governmental involvement in economies is the share of GNP going to government expenditures.
  - Public sector expenditures (federal, state, local) in the United States account for 34 percent of GNP.
  - Public sector expenditures amount to

    31% in Japan

    45% in the UK

    49% in Germany and Canada

    50% in France

    59% in Italy.

WITHDRAWAL SHEET

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SUMMIT SCHEDULE FOR SECRETARY BAKER

Thursday, May 2

6:30 p.m. Summit begins with reception hosted by Chancellor Kohl

8:15 p.m. G-7 Finance Ministers Dinner

Friday, May 3

Morning through Lunch G-7 Finance ministers Meeting/Lunch

Afternoon Plenary session (Summit Heads of State/Government Finance Ministers, Foreign Ministers, Personal Representatives as notetakers)

Evening G-7 Finance Ministers Dinner

Saturday, May 4

Morning through Lunch Plenary Session (Heads, Finance Ministers, Foreign Ministers, PRs)

Afternoon Reading of the Communique at the Bundestag

Evening State Dinner

MITGLIED DER KOMMISSION DER
EUROPAEISCHEN GEMEINSCHAFTEN
200, RUE DE LA LOI

B-1049 BRUESSEL

DEAR COLLEAGUE,

THE SEPARATE MEETING OF
MINISTERS OF FINANCE ON THE OCCASION OF THE UPCOMING ECONOMIC
SUMMIT WILL BE HELD ON FRIDAY, MAY 3, AT 9.45 A.M.
IN THE CABINET ROOM OF THE FEDERAL CHANCELLOR'S OFFICE BUILDING.

I SUGGEST THAT WE TAKE UP THE FOLLOWING ITEMS:

1. CONCLUSIONS TO BE DRAWN FROM LAST WEEK'S MEETINGS OF THE INTERIM AND DEVELOPMENT COMMITTEES:

   A) ON SUBSTANCE, E.G.: IN WHICH AREAS DO WE NEED TO DO FURTHER WORK? ARE THERE NEW VIEWS ON INCREASING THE RESOURCES OF WORLD BANK AND IDA? HOW SHOULD WE PROCEED WITH THEDEVELOPING COUNTRIES ON THE TRADE ISSUE?

   B) ON PROCEDURE: SHOULD THIS TYPE OF DEALOGUE BE CONTIUNED IN THE TWO COMMITTEES? COULD THE NEW PROCEDURES BE APPLIED TO REGULAR MEETINGS OF THESE COMMITTEES? (IN CASE OF A FURTHER COMMUNICATION FROM THE CARTAGENA GROUP:) HOW SHOULD WE REACT?

2. INFORMATION TO BE GIVEN TO HEADS OF STATE AND GOVERNMENT ON G 10 DISCUSSIONS. CONCERNING THE IMPROVEMENT OF THE FUNCTIONING OF THE MONETARY SYSTEM.

3. PROSPECTS FOR COMMERCIAL AND OFFICIAL MYRA'S. PROBLEM COUNTRIES, ESPECIALLY BRAZIL, ARGENTINA, PHILIPPINES, POLAND

4. MOST RECENT DEVELOPMENTS IN OUR COUNTRIES: ECONOMIC PROSPECTS, INTEREST AND EXCHANGE RATE DEVELOPMENTS.

5. QUESTIONS OF TRADE AND PROTECTIONISM.

6. SUMMIT DECLARATION.

7. OTHER BUSINESS.

I LOOK FORWARD TO MEETING YOU IN BONN.

WITH MY WARMEST REGARDS,

GERHARD STOLTENBERG

FEDERAL MINISTER OF FINANCE