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## THEMES PAPER

### I. SUMMARY INTRODUCTION

This is a time of real improvement in economic circumstances. Recovery is underway, and this fact increases our mutual confidence that it will soon spread to all countries, industrial and developing. The challenge is to ensure that this recovery endures and reverses a decade of cumulative inflation and unemployment. In this effort, we are mindful of the basic interrelationships that link our economies and the world economic system:

- The link between sustainable domestic growth and the open trading system.
- The link between convergence of domestic policies towards non-inflationary sustainable growth and greater exchange rate stability.
- The link between open markets and the availability of financing.
- The link between international economic cooperation and world progress.

To meet the challenge of an enduring recovery for ourselves and future generations requires steady and purposeful action over both the short and longer term, across a range of policies that exploit and reinforce these interrelationships.

- Promoting conditions for growth, employment and job creation, structural adjustment, and acceptance of technological development.
- Maintaining the fight against inflation with the objective of achieving lower interest rates and more stable exchange rates while intensifying consultations on economic policies and market conditions.
- Supporting the international financial system and strengthening world economic cooperation and institutions.
- Reversing protectionism and beginning to work to achieve further trade liberalization.
- Recognizing that prosperity is more than material gain, but also reflects our basic shared values of political freedom, economic opportunity, cultural creativity, and human dignity, and contributes to the defense of these values which also guide our economic and other relations with Eastern countries.

II. ASSESSMENT: REALISTIC OPTIMISM

Improvements are undeniable:

- Major successes have been achieved in reducing inflation.
- Interest rates have been significantly reduced.
- Productivity increases are being registered.
- Some successes in controlling budget expenditures are being achieved.
- Consensus exists to reduce inflation and unemployment on the basis of sustainable growth promoting policy convergence, further reduction of interest rates and greater stability of exchange rates.
- Measures to reduce dependence on oil have helped to bring about a decline in oil prices.
- Recovery in our countries spreading to others will help ensure the revival of world trade and easing of the debt burden of many developing countries.

However, unemployment, especially among young people, remains intolerably high and continues to increase in some countries. It can be brought down only if an enduring recovery is achieved. Serious problems remain which, if untended, will endanger the prospect of an enduring recovery.

- Differences in inflation among countries remain too great.
- Inflationary expectations, together with unacceptably high current and future budget deficits and the possibility of excessive and volatile monetary growth, keep interest rates too high, threatening to inhibit investment and recovery and producing distortions and volatility in exchange rates.
- Protectionist pressures threaten our open trade and financial system and prospects for recovery in both industrial and developing countries.
- Conditions in many developing countries remain much more acute than in our own; in many of them, unprecedented international debt burdens, exacerbated by high interest rates and low commodity prices, continue to constrain trade and, even in some cases, to threaten financial and related political stability and create human hardship.



### III. COMMON APPROACH TO A SUSTAINED RECOVERY

No single country, policy or immediate action can ensure a quick or sustained recovery. Success requires a common approach involving actions taken now across a broad range of policy areas, anchored within a framework of longer-term policy goals and decisions.

#### Actions Now:

- Enhance the intensive consultation process initiated at Versailles to promote convergence of economic conditions in key currency countries and thereby contribute to greater exchange rate stability.
- Develop cooperative consultations on policies and exchange market conditions and, while retaining the freedom to operate independently, be willing to intervene in exchange markets in a coordinated manner in instances where we agree such intervention would be helpful.
- Encourage governments to reduce excessive budget deficits, especially by reducing expenditures, thereby lowering inflationary expectations and high interest rates.
- Pursue appropriate non-inflationary growth of monetary aggregates to achieve and maintain low inflation and interest rates.
- Halt and reverse protectionism and make use of favorable conditions provided by recovery progressively to relax and dismantle trade barriers and trade-distorting domestic measures, including those related to trade in high technology products.
- Give new impetus to resolve current problems in agricultural trade, conflicts of jurisdiction and the need to achieve a safeguard agreement (by October 1983) as mandated by the GATT Ministerial.
- Agree to press forward with the GATT work program on trade in services.
- Begin work now to achieve further trade liberalization in the GATT, focusing particularly on trade with and among the developing countries, and on their ability to export and so to service their debt.



- Secure early ratification of the increase in IMF and GAB resources and provide interim financing as appropriate.
- Reaffirm commitments to provide agreed funding levels for IDA and the other multilateral development banks.
- Continue with agreed strategy, and strengthen cooperation, for managing current debt problems, including effective adjustment, adequate private and official financing, and sustained, non-inflationary recovery in industrial countries.
- Welcome openness to dialogue expressed by developing countries at New Delhi and Buenos Aires conferences and engage constructively in UNCTAD VI, emphasizing our program for a durable recovery and practical proposals to manage debt problems, facilitate adjustment, promote trade, revive commodity markets, encourage more private investment in, and official assistance for, developing countries and strengthen the dialogue with developing countries in appropriate fora.
- Agree to consult among each other and with other countries to address interrelationships among growth, trade, and finance in the world economy and to encourage better coordination among international economic institutions.
- Implement agreed conclusions for early action reflected in the results of work programs on East-West economic relations. (Identify significant results of pre-Summit meetings.)

#### IV. LONGER-TERM POLICY GOALS AND DECISIONS

- Sustain fight against inflation and structural budget deficits to encourage a higher level of investment and new job creation.
- Pursue the consultative arrangement agreed at Versailles to promote economic convergence toward low inflation and sustained growth and thereby achieve greater exchange rate stability, continuing with our agreement on exchange market intervention, in the context of an open trading, investment and financial system.
- Invite Ministers of Finance, in consultation with the Managing Director of the IMF, to define the conditions for improving the international monetary system and to consider the part which might, in due course, be played in this process by a high-level international monetary conference.

-- Promote technological development and trade, including their public acceptance, and in particular the implementation of the specific projects included in the program for cooperation initiated at Versailles.

-- Promote structural adjustment and its public acceptance, in order to enhance competition and the flexibility of markets and to improve the allocation of resources, by all appropriate means including revitalization of training and the encouragement of mobility.

-- Invite Ministers of Trade, in consultation with the Director General of the GATT, to define the conditions for improving the open multilateral trading system, including trade between developed and developing countries, and to consider the possibility of more frequent Ministerial meetings in the GATT to maintain urgency in this process.

-- Examine ways to improve the effectiveness of the development process and structural adjustment by assuring non-inflationary flows of public and private finance and investment to the developing countries, with special attention to an adequate flow of resources to the poorer countries, both bilaterally and through IDA, the IBRD and similar institutions.

-- Continue efforts to conserve energy and develop economic alternative energy resources so as to ensure Western energy security and enhance energy production in developing countries.

-- Find practical ways to promote increasing food production in developing countries.

-- Work together to find ways, without discouraging growth and technological development, to protect and preserve natural resources and to reduce the threat of pollution from industrial processes (e.g., acid rain).

-- Promote cooperation in the development of human resources, including education and training and the improvement of health.

-- Continue work in appropriate existing fora to develop agreed analysis of our economic relations with the East, with attention to our shared security concerns, and on this basis pursue independent policy actions consistent with agreed principles and common analysis reflecting the fact that these relations should be compatible with the basic values and security concerns of Western countries.

DRAFT STATEMENT

Strengthening Monetary Cooperation for Stability and Growth

I. We have examined in the light of our experience the procedures outlined in the undertakings agreed at Versailles last year which seek to ensure greater monetary stability in the interest of balanced growth and progress of the world economy.

II. We reaffirm the objectives of achieving noninflationary growth of income and employment, and promoting exchange market stability through policies designed to bring about greater convergence of economic conditions, in this direction.

III. We are reinforcing our multilateral cooperation with the International Monetary Fund in its surveillance activities, according to the procedures as agreed at Versailles, through the following approach:

A. We are focusing on nearer-term policy actions leading to convergence of economic conditions in the medium-term. The overall medium-term perspective remains essential, both to ensure that short-term policy innovations do not lead to divergence and to reassure business and financial markets.

B. In accordance with the mandate given to us at Versailles, we are focusing our attention on issues in the



monetary and financial fields including interaction with policies in other areas. We shall take fully into account the international implications of our own policy decisions.

Policies and targets that will be kept under review include:

(1) Monetary Policy. Disciplined noninflationary growth of monetary aggregates, and appropriate interest rates, to avoid subsequent resurgence of inflation and rebound in interest rates.

(2) Fiscal Policy. Discipline over government expenditures, particularly transfer payments. We will aim to reduce structural budget deficits and bear in mind the consequences of fiscal policy for interest rates.

(3) Exchange Rate Policy. We will improve consultations, policy convergence and international cooperation to help stabilize exchange markets.

(4) Policies Toward Productivity and Employment. While relying on market signals as a guide to efficient economic decisions, we will take measures to improve training and mobility of our labor forces, and accommodating continued structural adjustment, especially by:

-- Enhancing flexibility and openness of economies and financial markets.

-- Encouraging research and development as well as profitability and productive investment.

-- Continued efforts in each country, and

improved international cooperation, where appropriate,  
on structural adjustment measures (e.g. regional,  
sectoral, energy policies).

IV. We shall continue to assess together regularly in this  
framework the progress we are making, consider any corrective  
action which may be necessary from time to time, and react  
promptly to significant changes.

## Glossary of Terms Likely to be Used at Williamsburg

Bank for International Settlement (BIS): Multilateral Swiss-based financial institution to promote international financial cooperation, serve as Central Bank clearinghouse, and act as agent for the European Monetary System. Dominated by European central bankers. Just issued report highly critical of U.S. economic policies. Has done bridge financing to some LDC debtor countries.

Bretton Woods Conference or System: Conference held in Bretton Woods, New Hampshire, in 1944 which established the fixed exchange rate system. But fixed parity could not be reestablished for pound, because of underlying economic conditions, and convertibility of currencies into dollars at fixed parities was suspended until 1958.

"Cooperative Exchange Rate Policies": A term used by the Europeans, especially the French, to refer to the willingness of the U.S. to intervene in the foreign exchange markets and/or adjust interest rates to influence exchange rates.

COCOM (Coordinating Committee): A body made up of the U.S. and our allies to coordinate policy on exports to the eastern bloc countries.

Convergence Exercise: The cumulative process initiated at Versailles among the five key currency countries making up the IMF monetary unit, known as the Special Drawing Right (SDR). Finance Ministers of these countries meet several times a year with IMF Director to discuss convergence of their policies around low inflation, higher productivity and disciplined monetary and fiscal objectives in order to achieve greater stability of exchange rates.

Credit Controls: Direct central bank controls over the amount of loans that can be made by commercial banks and other financial institutions.

Current Account Balance: The part of a country's balance of payments which describes the difference between what a country is able to export and what it imports in goods and services. A "deficit" in the current account means that a country is importing more goods and services than it is exporting. A current account "surplus" means it is exporting more than it is currently importing.

Energy Affiliate: Vaguely defined proposal to create an institution, affiliated with the World Bank, that would assist in financing energy projects in developing countries.

European Monetary System (EMS): A European Community (EC) arrangement to fix the values of EC currencies in terms of each other and promote EC economic policy coordination. Exchange market intervention is required to peg exchange rates.



Exchange Market Intervention: Central bank purchase or sale of its currency in the markets to increase or decrease its value relative to other currencies.

Export Credit Subsidies: Government credit provided at below market rates to promote exports; e.g. government export-import bank borrows at 14 percent and lends at 9 percent to buying countries.

Fixed Exchange Rates: Relative currency values that are maintained at constant ratios by official exchange market intervention. System in effect until 1973.

Flexible Exchange Rates: Daily movement of the value of one currency in terms of another currency in response primarily to market forces. System in effect since 1973.

GATT: The General Agreements on Tariffs and Trade, an international organization established to promote an open trading system. Seven major reductions in tariffs and other barriers to trade have been negotiated in the GATT framework, following GATT Ministerial meetings.

Global Negotiations: An effort led by developing countries to launch centralized negotiations in the United Nations on a broad range of international economic issues. The LDCs hope that such negotiations, in a highly politicized forum such as the U.N. where decision are taken on a one country vote basis, would produce a "package" agreement leading to a "new international economic order" of major benefit to them. (See North/South Dialogue)

Incomes Policy: Government policy to make or guide private sector wage and price decisions.

International Energy Agency (IEA): An organization of industrial countries to coordinate international energy policy (including an arrangement to share oil supplies in time of crisis). Recent successful study on energy security was done here.

International Monetary Conference: Conference urged by President Mitterrand and also some other countries such as New Zealand and India to establish new rules for the international monetary system, principally fixed exchange rate parities as applied in the Bretton Woods system.

International Monetary Fund (IMF): The central monetary institution for the world economy, responsible for guidance of the operation and evolution of the international monetary system, and the principal source of temporary official financing in support of balance of payments adjustment programs.

Multilateral Surveillance: See Convergence Exercise.

Multilateral Trade Negotiations (MTN): Completed in 1979, it was the latest of the series of negotiations, since 1948, under the General Agreement on Tariffs and Trade to reduce trade barriers. Tariffs were cut to an average of 2.3-6.5 percent for the Ottawa Summit countries. In addition, non-tariff barriers were reduced by agreeing to rules covering subsidies and countervailing duties, standards (technical barriers to trade), government procurement, licensing, and customs valuation.

Nominal Growth: Growth in the market value of the output of goods and services [Gross National Product -- (GNP)] produced by the economy (see real growth).

North/South Dialogue: Discussions in numerous international fora (primarily in the U.N. system) in which the developing countries attempt to explain to the industrialized countries their peculiar needs, and to convince the latter countries to increase aid and restructure the international economic system to benefit the developing countries.

OECD: Organization for Economic Cooperation and Development.

Real Growth: Growth in the market value of output (nominal growth) after adjustment for inflation. The market value is deflated by a price index (GNP deflator) to estimate the physical quantity of goods and services produced (referred to as "volume" or "real" output).

Real Interest Rates: Europeans tend to calculate real interest rates as nominal rates minus current inflation. By that standard, U.S. real interest rates are double historic rates of 3 percent. For long-term money, the real interest rate should be calculated as nominal rates minus expected inflation. By that standard, with markets still expecting 6-7 percent future inflation, U.S. real interest rates are around the historic average.

Safeguards Code: A safeguards code would specify conditions under which a country could impose emergency import restrictions to provide temporary relief to an industry suffering from a rapid influx of imports, e.g. Japanese auto. Although the GATT contains some rules pertaining to safeguards, a comprehensive safeguards code was one of the few major objectives the U.S. failed to attain in the MTN.

Special Drawing Right (SDR): The monetary unit of the International Monetary Fund consisting of the weighted average of five key currencies -- dollar, pound, franc, mark and yen. Thus far, only small amounts of these units have been issued for use in international transactions and reserves.

Swap Line: A standby agreement between two countries, treasury or central bank, in which each agrees to loan its



currency to the other, on a short-term basis, for use in foreign exchange intervention.

Third Oil Stock: A term used by the Europeans, particularly by the French, to suggest that the rapid 1981 increase in the dollar's value has had an effect on their economy (particularly their oil import costs) equivalent to the shock of the major OPEC oil increases.

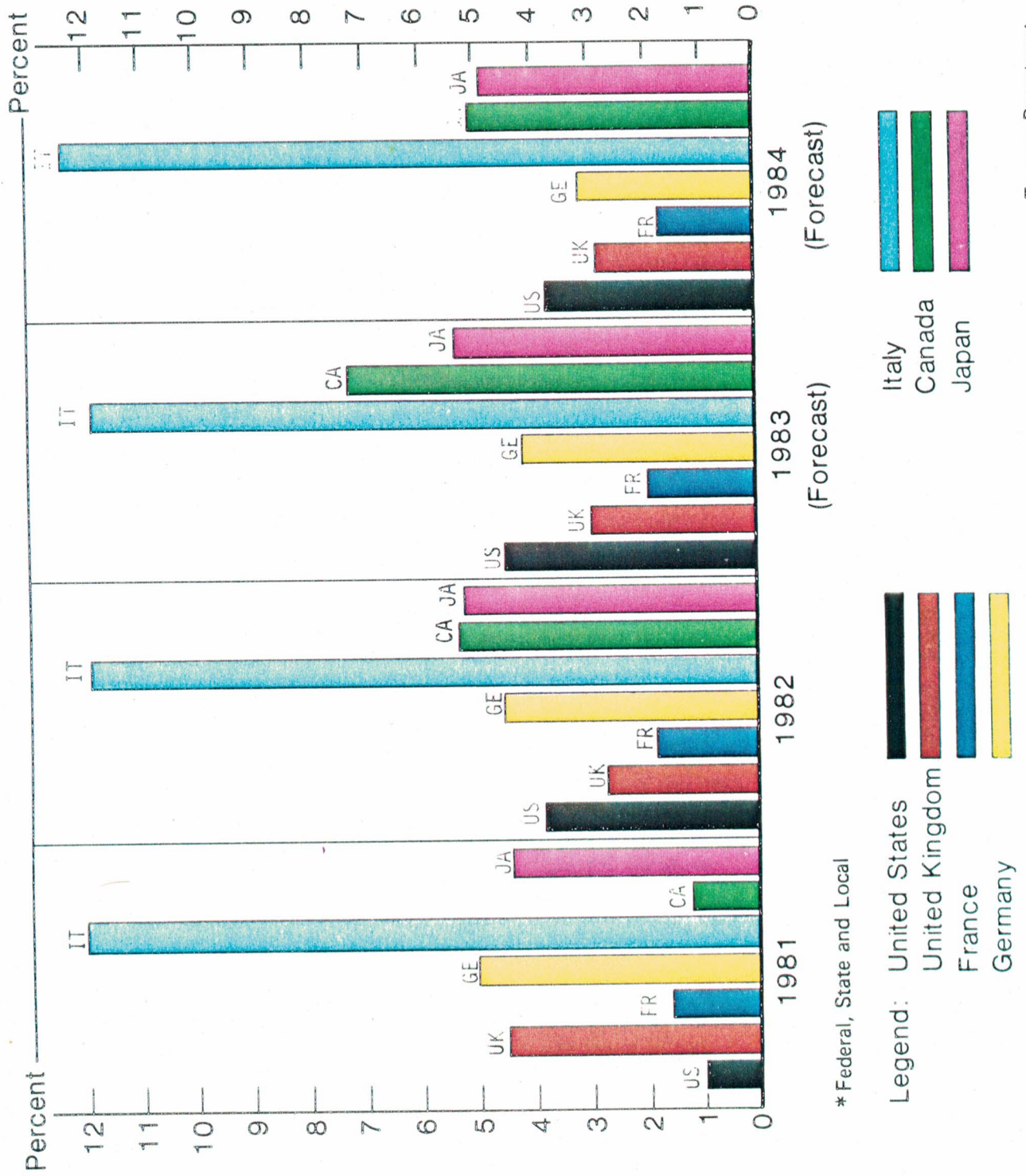
Trade-weighted Exchange Rate: A weighted average of individual exchange rate movements, with weights based on bilateral trade shares.

Trigger Price Mechanism (TPM): A system of steel import prices based on cost of production of the most efficient producer, Japan. Sales priced below TPM, unless pre-cleared with Commerce, or surges in imports (even if priced above TPM), may trigger antidumping or subsidy investigation.

UNCTAD: U.N. Conference on Trade and Development was established in 1964 to express the desire of the developing countries for a greater role in international economic decision-making than they have in the specialized agencies (IMF, World Bank, GATT) where votes are weighted or industrial countries tend to prevail. UNCTAD will hold its VI Plenipotentiary Conference in Belgrade next month

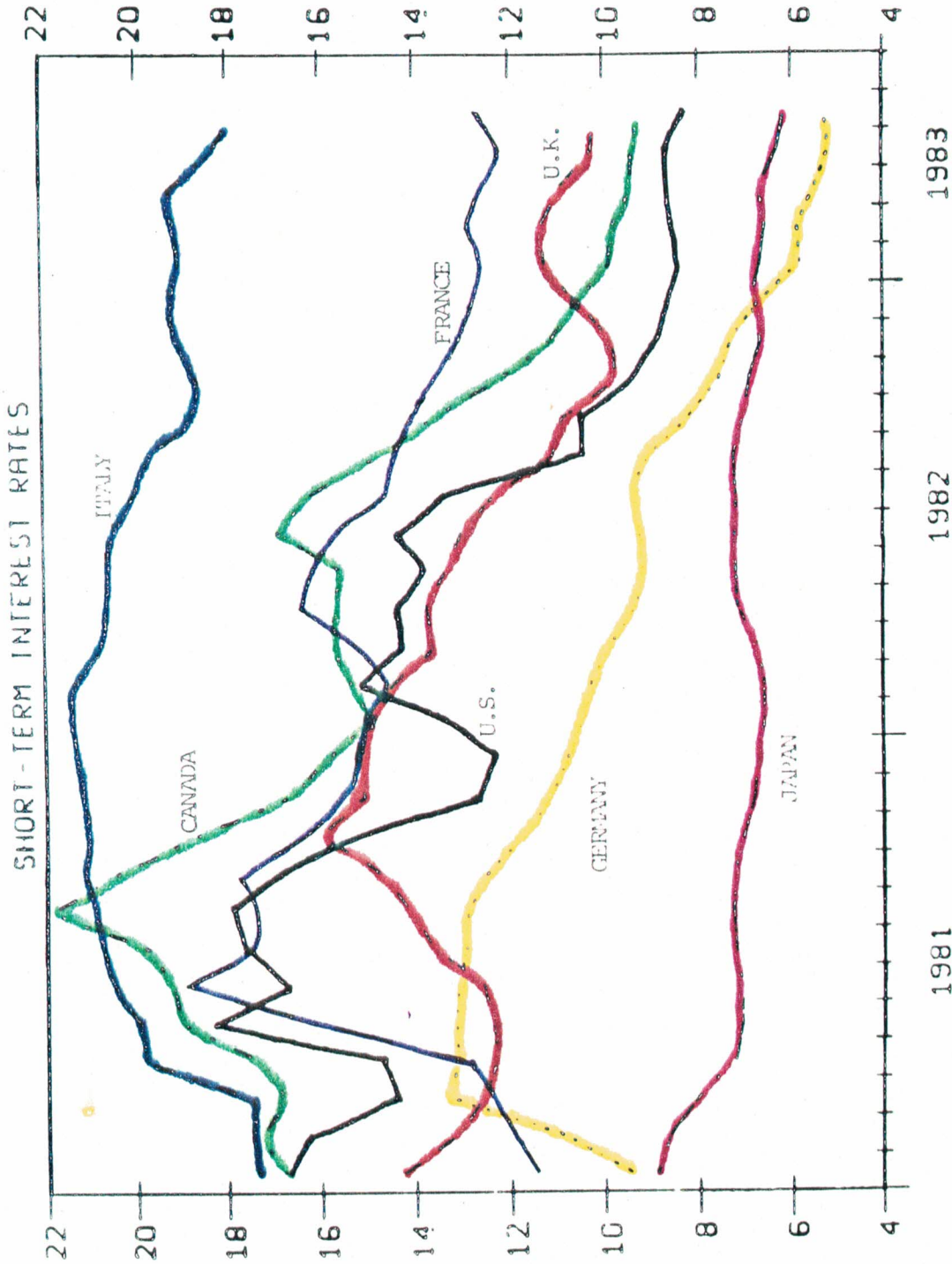


# PUBLIC SECTOR\* DEFICITS AS SHARE OF GNP

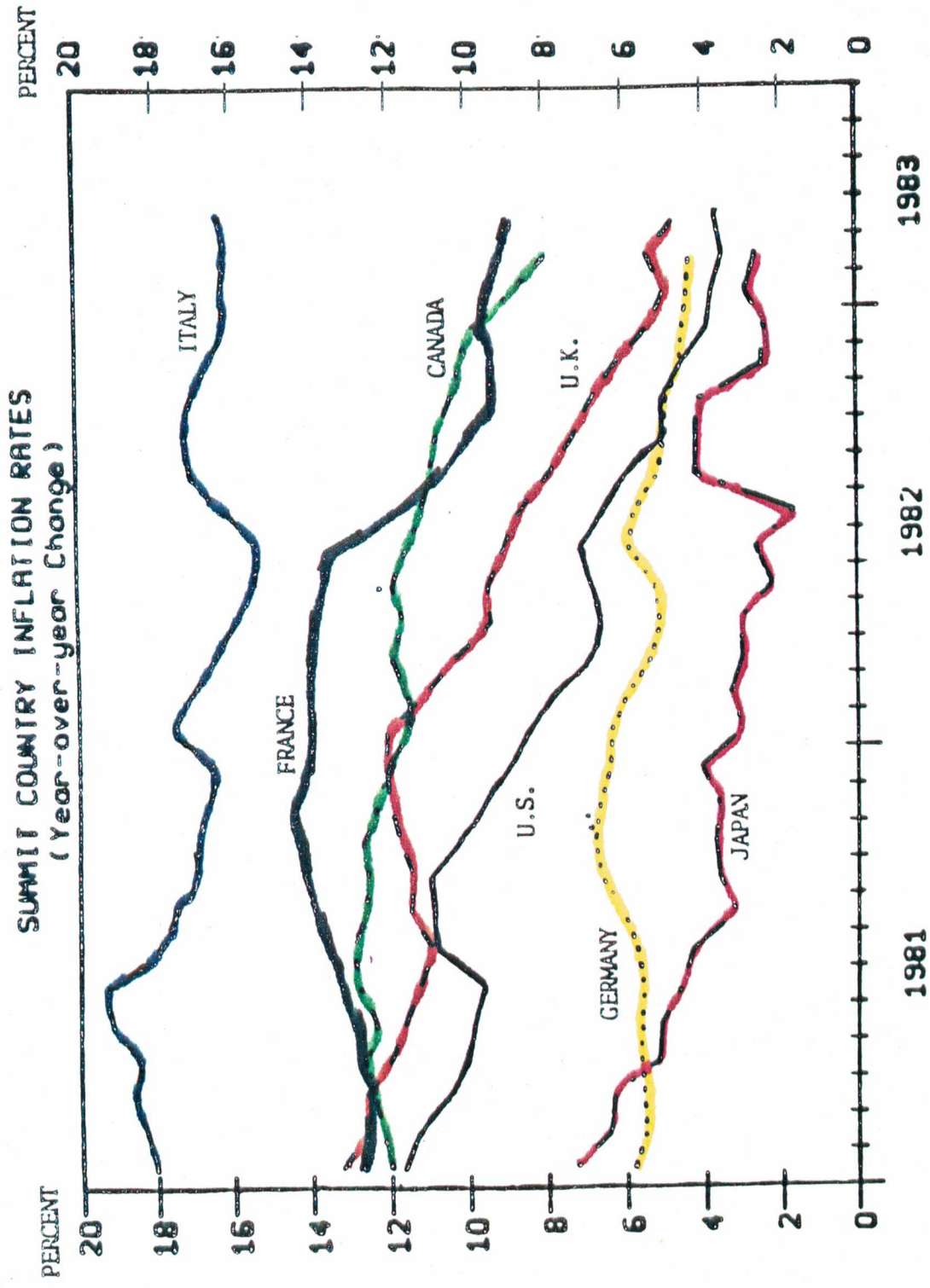


\* Federal, State and Local

- United States
- United Kingdom
- France
- Germany
- Italy
- Canada
- Japan



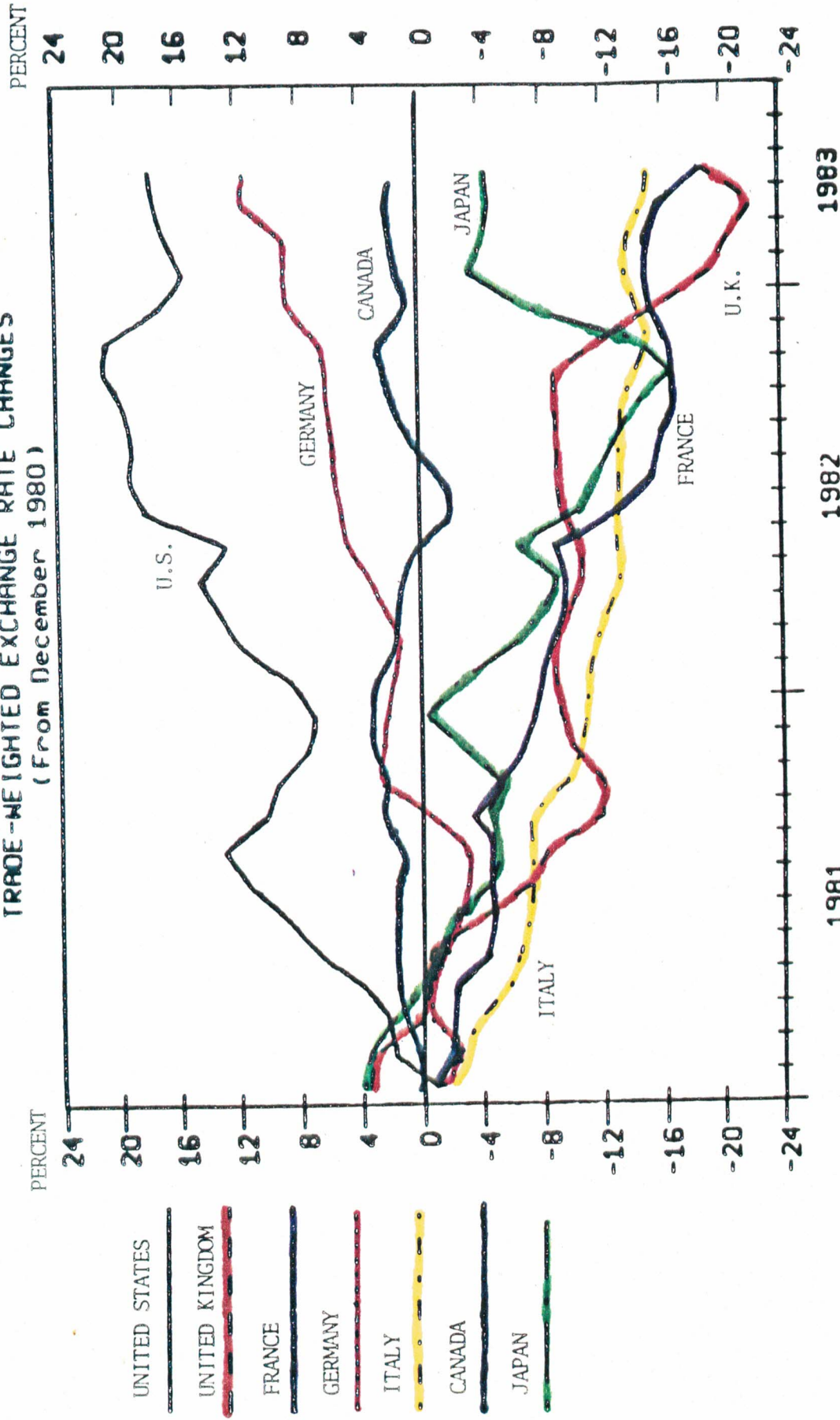
NOTE: All short-term interest rates are monthly averages of three-month rates on Wednesdays, except latest observation which is average of May 4 and 11. Short-term interest rates are: U.S. - New York C.D.; U.K. - London Interbank; France - Paris Call Money; Germany - Frankfurt Interbank; Italy - Milan Money; Canada - Finance Paper; Japan - Yen Call Money.



Treasury Department



# TRADE-WEIGHTED EXCHANGE RATE CHANGES \* (From December 1980)

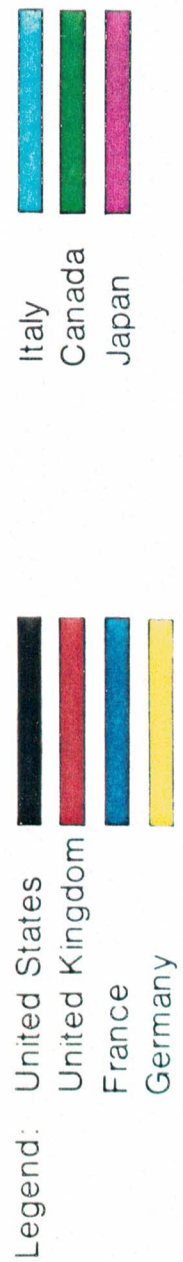
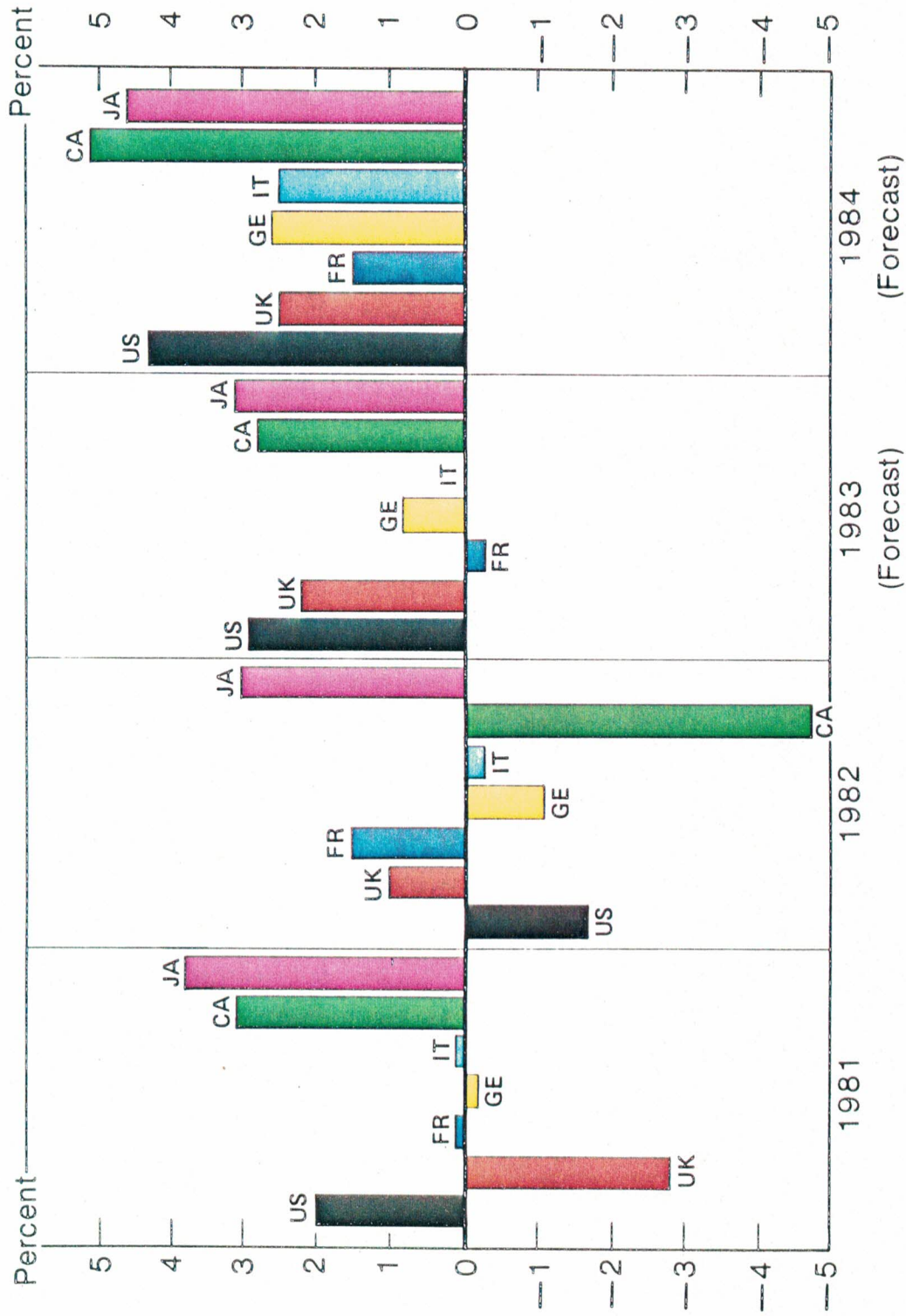


\* Positive slope indicates currency appreciation. Exchange rates used are monthly averages through April.

Data through April 1983

Treasury Department

# SUMMIT COUNTRY REAL GNP GROWTH



PRESIDENTIAL REMARKS: ARRIVAL IN WILLIAMSBURG  
FRIDAY, MAY 27, 1983

It is a great pleasure to come to this picturesque site -- the cradle of so much American history. I look forward tomorrow to welcoming the leaders of other industrialized democracies to the Williamsburg Economic Summit. Our main purpose is twofold:

-- to discuss how we can broaden the economic recovery now under way; and

-- to reinforce the enduring values on which our close relationships with the other Summit nations rest.

My Summit partners and I approach this meeting -- the ninth in as many years -- in a spirit of realistic optimism. We take heart in the evidence that the U.S. and others are now recovering from the most serious global recession since World War II. Recovery is what this Summit is all about. We are convinced that the growing convergence of domestic economic policies among the countries to be represented here will help sustain recovery and expand it to the rest of the world. With inflation increasingly under control, we can turn our collective attention to solving such problems as protectionism and unemployment. At the same time, we can lay the basis for growth among the less developed countries, in whose welfare and prosperity we all have an important stake.

Our work will not, of course, begin or end here in Williamsburg. We do not underestimate the nature or the



magnitude of the problems that confront us, or the difficulties such problems cause among the less fortunate sectors of our populations. With 40 million people unemployed in the Summit countries, we must not flag in our efforts to ensure a recovery that is durable, non-inflationary, and rooted in the democratic values we as free peoples cherish. These efforts are part of a long-term process addressing the most pressing concerns of what we have come to call the Successor Generation -- our children and our children's children. Our work here in Williamsburg is therefore not only for the present; in a very real sense it is for posterity.

I am confident in the ultimate success of our task. The leaders who will join me tomorrow have prepared extensively for **C**r Summit. I anticipate the closest and most candid discussions with them on what we can do together to help the people in our countries and throughout the world. Now as always in the long history of democratic tradition, we confront the challenges before us in a spirit of hope and confidence, a spirit that flows most abundantly from free peoples living under freely elected governments.

PRESIDENTIAL REMARKS: WELCOMING REMARKS  
CARTER'S GROVE, WILLIAMSBURG  
SATURDAY, MAY 28, 1983

I would like to extend a very warm welcome to all of you to this latest in our series of "Economic Summit" consultations, begun so constructively eight years ago at Rambouillet.

I know that each of these meetings is the result of a great deal of preparation by everyone involved. My thanks, and I am sure that I speak for each of the delegation heads, go to all who have done such a fine job laying the groundwork for this occasion.

It is encouraging to note that in the year since we last met in this forum, the underlying economic situation of the industrialized countries has improved markedly. Although many problems remain, we have made steady efforts to restore conditions for growth in our national economies, and international recovery is now underway. Against this background, we can all look forward to a most productive session.

Let me review some of the basic themes and directions for the Summit here at Williamsburg.

Rather than concentrating on a single issue, this summit will take an integrated view of the domestic and international aspects of the world economy. Broadly speaking, we would like to see non-inflationary sustained growth, and continued improvements in the international trading and financial system.

There are, in our view, several basic relationships in the world economy, upon which we should focus: the relationship

between growth and an open international economy; between domestic economic policies and exchange rate stability; between finance and trade; between enhanced access to markets and long-term management of the international debt problem; between investment, public and private, and economic growth in the developing world; and between economic strength and security.

These are all matters of deep concern to our group of countries. We look at the world economy against a background of many common interests and shared values. These are invaluable ties which I am sure this gathering at Williamsburg will serve to strengthen and reinforce. And, in this spirit, I, like you, am looking forward to the discussions of the next few days with enthusiasm and confidence.



PRESIDENTIAL TOAST: OFFICIAL DINNER  
ROCKEFELLER FOLK ART CENTER, WILLIAMSBURG  
MONDAY, MAY 30, 1983

Our discussions over the last few days have been as fruitful, useful, and enjoyable as I had hoped.

As I noted at the outset, our countries are linked by a multitude of mutual interests and by a shared commitment to freedom and democracy.

Williamsburg -- the site of the first representative assembly and of the second university in the colonies that became the United States -- has been a particularly appropriate place in which to rededicate ourselves to these principles.

To preserve the values we share, we must strengthen our domestic economies, seek the advantages of vigorous international trade, and deal intelligently with the problems and crises of the developing world. While doing this we must also give appropriate attention to our security interests.

These objectives are complex, sometimes seemingly contradictory, and always difficult to achieve. Our individual perceptions about particular issues may sometimes differ. But gatherings such as this give us the opportunity to work together on a regular basis to address the problems we share. This meeting has, in my judgment, achieved that objective. It has left me more confident than ever of the basic health of our free way of life, and our ability, in cooperation, to lay a sound foundation for our children and our children's children.

In that spirit, I want to toast all of you who, in the last few days, have participated in this chapter of a vital and unceasing effort.