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Memorandum for:

The attached is a summary of Summit
country public positions. It was requested
by Henry Nau of the NSC.



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STAT

WILLIAMSBURG SUMMIT POSITIONS AND STATEMENTSGROWTH/INFLATIONWEST GERMANY

Bundesbank President Poehl told the Frankfurt Chamber of Commerce on 5 May that the Summit should emphasize cohesion in economic policies. He said he hoped the Summit would underscore that a policy of combating inflation through monetary policy alone, ignoring the effects of high budget deficits, must be corrected. [REDACTED]

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Comment: The West Germans believe that the Summit should focus on broad issues such as the necessity of reducing unemployment and promoting recovery without reviving inflation. They hope the Summit will convey to the world an optimistic assessment of economic prospects and reinforce domestic confidence in Bonn's ability to sustain the recovery at home. [REDACTED]

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FRANCE

The following comments are from Mitterrand's 9 May speech to OECD Ministers. "The recovery that is beginning, here and there, will run out of steam very quickly, much more quickly than people think, if nothing is done to sustain it. I believe we must find the road to growth together. But to start, the first step on the road will only be possible through coordinated growth, which will create the conditions for a healthy and sustained recovery, that is to say without inflation. Knowing what I know of the problems which remain to be solved in a country like mine, I say it with even more force and conviction." [REDACTED]

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"Nobody contests the necessity for a massive reduction of excessive budget deficits that cause exaggerated real interest rates and therefore reduce capital available for investment. The more important a country is, the more dangerous these deficits are for it and for other countries. At the same time, those that have leeway to stimulate their own growth should do so. Good results in the fight against inflation should lead to stimulus of economic activity." [REDACTED]

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"We must also stabilize our economic relations. A return to sustained growth will remain unrealistic without a patient reconstruction of a stable system of international economic relations, in three critical areas: currencies, trade, and raw materials. I will insist on this point, which preoccupies our thinking: nothing is possible for the North if recovery is not assured for the South." [REDACTED]

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UNITED KINGDOM

In a 6 May Fortune interview, Thatcher stated, "It's a false idea that inflation will lead to more jobs. High inflation leads to higher unemployment. I will go the way that is sound in the long run. And getting inflation down is, in the long run, one of the ways which helps to get unemployment down. We have been firmly for a very disciplined control of public spending and of the public deficit." [redacted]

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Concerning US interest rates, in an interview with a correspondent from the Wall Street Journal on 31 March, Thatcher said, "It is very important for all of us to try to get and keep interest rates down. I cannot overstress that. It is so important. If you don't keep them (interest rates) falling then you shall just strangle your recovery. In the end you can only cooperate together most effectively when you are all running your economies in a sound way. It's absolutely vital for us jointly to pursue policies which enable us to get and keep interest rates down and to keep inflation rates down. The US deficit causes problems (in this regard)." In a television interview on 2 May, Chancellor of the Exchequer Howe called for a major US leadership effort to reduce the US budget deficit and thereby interest rates worldwide, likening the plan to the US effort in developing the Marshall Plan in the wake of World War II. [redacted]

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Howe added that "if they (the US) are able to see in their own eyes, and those of their people, the role of their battle against a huge budget deficit in getting interest rates down worldwide, for the developing countries as well as the industrial countries, and in helping to reduce instability in exchange rates, then that is the kind of advance that can come from Williamsburg. The important thing is that high interest rates have created a high exchange rate for the dollar. That has contributed to inflationary pressures in other countries, and made it difficult for them to lower interest rates. And that has meant that capital is being drawn into the US, which is not good for the rest of the world." [redacted]

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Howe stated that, in his own personal view, he would like to see the Summit "arrive at some kind of international medium-term financial strategy modeled after the approach on economic policy." Moreover, "countries which have successfully reduced budget deficits and inflation should not risk gambling away these achievements on fiscal policy. This is a matter for governmental judgment and leading economists should aim for a self-starting path to economic recovery. A strong stance on controlling medium-term budget deficits is the answer." [redacted]

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Comment: Howe has indicated that he fears the US will be unable to effectively reduce its deficit and interest rates because the US Government is "not sufficiently" committed to this course. The British will come to the Summit seeking US movement on interest rates, but they will be sympathetic to US determination to hold down inflation. Thatcher probably understands the interplay between the President and Congress on economic measures better than any of the other Summit participants. Having had difficulty in implementing

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[REDACTED]

her own policies through Parliament, she will recognize US limitations. Nevertheless, Thatcher will need to come away with some assurances that the US will, at least, not allow interest rates to rise or undertake other measures which might otherwise slow the incipient recovery. Faced with 9 June elections, Thatcher will want to be able to show some signs of a recovery to the public. [REDACTED]

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ITALY

After this week's cabinet meeting, devoted primarily to Summit issues, State Participations Minister De Michelis stated that "the Williamsburg Summit should produce a joint policy to revitalize the world economy." He also reported that the ministers agreed to support coordination of industrial policies to promote technological innovation, exchange rate controls, and lower real interest rates. Foreign Minister Colombo, however, claimed that no decisions were reached at the meeting. [REDACTED]

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Comment: The Italians will be represented at the Summit by a Fanfani-led government in a pre-electoral political atmosphere. Christian Democrats and Socialists -- probable future coalition partners -- may be contrasting their views more sharply on economic issues. The Italians will be even more alert than usual to the constraints of domestic affairs on their foreign policy considerations. With high inflation (about 16 percent), an expanding budget deficit (15 percent of GDP in 1982), and balance of payments problems, Italy's policy options for reflating the economy are limited. Rome will be dependent on exports to buoy falling domestic demand and will likely be very supportive of expansionist policies in countries where inflation has been tamed. [REDACTED]

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JAPAN

Foreign Minister Abe, in a press conference on 10 May, said Summit countries were prepared to step up joint efforts for recovery and Japan would make efforts to stimulate domestic demand. Japanese officials have not publicly commented on US interest rates in connection with the Summit. [REDACTED]

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Comment: We do not think Abe's statements should be interpreted as an endorsement of the locomotive theory. [REDACTED]

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CANADA

Prime Minister Trudeau, during a 25 April press conference, stated: "What can and will be discussed at the Summit and pre-Summit meetings are the pernicious effects of excessively high US real interest rates on other countries' economies and on public confidence in the recovery's substantiality." And in a 6 May speech to the Canadian Institute of International Affairs, he added that it is vital that the Williamsburg Summit

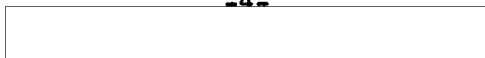
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"rekindle a fundamental spirit of enlightened internationalism. We must achieve a common resolve to meet all the conditions for global recovery, not just recovery in industrial countries. This will require greater convergence in policies and performance, and a climate of confidence which will bring about a lowering of real interest rates, which in turn will inspire innovative and productive investment." Finance Minister Marc Lalonde, in the Wall Street Journal of 3 May, was quoted as saying, "We believe that the high (US) real interest rates that exist are significantly above what would be required in terms of management of monetary policy, and we are encouraging US authorities to try to bring down their real interest rates." 

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TRADE AND FINANCEWEST GERMANY

The West Germans do not want a detailed agreement on protectionism but rather a general commitment from the seven to lower trade barriers. In his 4 May speech to the Bundestag, Helmut Kohl stated: "The FRG owes almost one-third of its GNP to its export business. We must ensure its ability to compete in the struggle over prices and in technological competition. We are for free world trade. Free exchange, not protectionism, will ensure jobs and prosperity. I will definitely promote this attitude and conviction at the forthcoming Williamsburg meeting of Western industrial states. I expect and hope that our partners will also support free world trade there and also in practice afterwards." [redacted]

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In commenting on Summit topics in his 5 May speech to the Frankfurt Chamber of Commerce, Poehl spoke out against initiatives for heavier central bank intervention as a means of controlling currency markets. He said currency convertibility is a prerequisite for free trade in goods and services, and he criticized currency controls used by some countries to support their exchange rates. Poehl praised the IMF and BIS for the roles they played in quelling last year's debt crisis, but he warned that commercial banks and indebted countries need to assume more responsibility in stabilizing shaken credit markets. [redacted]

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Finance Minister Stoltenberg stated in a speech on 28 April that the Summit countries must give priority to strengthening the IMF, dismantling trade barriers, and formulating common policies on areas ranging from interest rates to development aid. In a 15 March article in the major West German trade journal, he contended that proposals for restructuring the international monetary system that involve a Bretton Woods-style monetary conference contribute little toward improving the world economic situation and that such a conference would duplicate functions performed by the IMF. [redacted]

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FRANCE

Mitterrand, in his 9 May speech, on Bretton Woods: "Remember that at the beginning of the seventies, the weakening of monetary discipline, the uncontrolled creation of international liquidity, brought on a first wave of inflation. Then the generalized spread of floating exchange rates added to the instability of parities and reinforced those inflationary tendencies, and the second oil shock brought on a severe recession which has been aggravated by erratic movements of certain currencies on the international markets." [redacted]

"Admittedly, since August 1982, cooperation among international financial institutions, monetary authorities, and the banking sector has allowed us to avoid the worst.... But avoiding the worst is not a goal. It is an urgent task to rediscover the conditions for a stable monetary system, with currencies that are sufficiently fixed and of a reasonable economic value. In the first place we have to rapidly continue the effort begun at Versailles

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[redacted]

last year and to put in place the measures which were taken. Effective coordination between the economic policies of the industrialized countries must be sought and reinforced." [redacted]

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We must try to find realistic parities and to limit erratic short-term fluctuations around the reference rates. We will study, moreover, the means to act in common to better adjust medium-term parities, when the economic fundamentals of the principal countries ... differ in a lasting way...As the conclusions of the working group on intervention ... show, monetary coordination is clearly useful when there is market disorder and when the short-term volatility of exchange rates accelerates. Are we not in such a situation today? Haven't the Seven ... affirmed their will to put in place coordination intervention in cases when their usefulness is recognized? If not, why keep having international meetings?" [redacted]

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"Then, we will go further. The three principal monetary areas, the yen, the dollar, and the European currencies, could agree to reinforce their links and serve as poles of exchange rate stabilization for the principal currencies of the world. The IMF's role would be reinforced to promote the use of SDRs in official reserves, in the operations and accounts of international institutions, and in private transactions.... The time has come to think about a new Bretton Woods.... I hope that after a careful preparation, an international monetary conference at the highest level can be organized in the framework of the IMF." [redacted]

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On protectionism: "Protectionism, which each of us deplores in others, constitutes without doubt and by definition an obstacle to the growth of trade and the development of the poor countries.... It is time to cure the principal causes of trouble and to show that no one has anything to gain from this protectionism, including its most hidden forms, those involving technical or health standards. This will be done by assuring fair access to markets, a condition of economic growth for the North as well as the South." [redacted]

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On technology: "The renewal of technological cooperation demands another international division of labor. We all have an interest in avoiding excessive competition, whether it be between sectors in decline or between new industries. We must commit ourselves to work out progressively some rules of conduct in the realm of industrial strategies and industrial policy." [redacted]

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On North-South: "Can we not conclude commodity agreements wherever possible? These accords will seek to stabilize the markets within a realistic range, since we know it is not possible to fight indefinitely against the fundamental trends of the market. And, as financial resources are indispensable, I will stress the need to start up without further delay the Common Fund for Raw Materials.... Regularize the futures market.... Where they are not regulated, instead of informing, these markets mislead.... More strict discipline in play of competition will have these markets do what they are supposed to do." [redacted]

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[REDACTED]

"We all know that only recovery ... will solve our own problems by opening up new markets and exploiting new resources.... We seem to be ignoring the most obvious markets, those most ready for growth, those of the Third World.... Politically, I am convinced of it. The survival of our democracies and our ability to maintain a free world around us depends on it. No recovery, no monetary system, no trading system will be stabilized if the economic and financial situation of the countries of the South is not improved. If these countries do not have serious and permanent means of financing their debts and prompting growth, their political equilibrium will be endangered from one day to the next." [REDACTED]

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"Our common interest is to reduce the debt burden of the South. It is essential that all the countries lower the real interest rate, which is a primary cause of the increase in the cost of indebtedness of the countries of the South." [REDACTED]

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"Since the reform of 1975, the amounts available from the IMF's 'facility' have attained a respectable level, and that is very good. But the volume of resources is still insufficient. In this regard, I note that the recent increase of the IMF quotas constitutes an important step, but it should not be accompanied by an increase in the severity of procedures limiting the use of this new resource.... It is necessary to take concrete action for the most needy countries. It should be possible to loosen the debt constraints of these countries and permit them to borrow, under more flexible conditions, amounts substantially above their quotas. Furthermore, a part of the new SDR issues could be used to decrease the cost of this facility. A supplementary assistance effort in favor of the 36 least developed countries is called for.... Each of us must do what we can to reach, as soon as possible, the level of assistance recommended by the UN." [REDACTED]

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"The role of the World Bank should be greatly increased and diversified to correspond to the needs of the borrowers. It would be appropriate to modify the ratios, I believe, and to increase significantly the bank's own capital in 1985...." [REDACTED]

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"In general, I emphasize the importance of stability over time of financial commitments in aid and credits.... An essential element of the Lome Convention ... was to guarantee financing for a five-year period." [REDACTED]

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"An 'Emergency Plan for Africa' must be launched. An exceptional effort of solidarity on the part of the Western countries is urgently needed. My country will soon put forth detailed propositions on this subject...." [REDACTED]

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UNITED KINGDOM

In the television interview on 2 May, Howe stated that his second major objective at the Summit (the first being to obtain US agreement to reduce the budget deficit and interest rates) would be to block further moves toward protectionism. [REDACTED]

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[REDACTED]

Prime Minister Thatcher, responding to a question on protectionism during the Fortune interview, said, "Each of us in fact, because we have special problems with certain industries, engages in some type of protectionism. The important thing is to see that it does not enlarge. You must have temporary measures to protect certain industries ... (but) we must have voluntary restraint over a limited period." [REDACTED]

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Comment: Thatcher has consistently opposed protectionism. She has been especially vocal and outspoken in her attempts to get the EC to reduce protectionist measures on services. In part this reflects the role of services in the British current account balance. It also reflects, however, Thatcher's philosophical commitment to free trade. [REDACTED]

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ITALY

The mid-April position paper of the Italian Sherpa, Ambassador Paolini, is the best summary of Rome's position on trade:

- Opposes protectionism.
- Supports more frequent GATT ministerials and meetings of Summit country trade ministers and ad hoc meetings of trade and financial officials at all levels to better coordinate trade and financial policies.
- Does not believe that LDC debt problems have reached a stage where major financial reforms or master plans are needed, but there is a necessity for minimum net credit flows.
- Given its burgeoning budget deficit, will stress the availability of financing from multilateral institutions (IDA, IMF) including the possibility of subsidized interest rates on new loans.
- Will support bridging loans.
- Endorses indirect measures such as commodity revenue stabilization programs to alleviate LDC interest payment burdens. [REDACTED]

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Comment: With exports accounting for about 25 percent of GNP, Rome has a high interest in maintaining the free trade system. The Italians may, however, endorse restrictive measures in exceptional circumstances. The call for more interchanges between officials to improve coordination of trade and financial policies also reflects Rome's emphasis on playing a larger role in international economic affairs through greater participation in forums with other major industrialized nations. Proposals on LDC debt reflect, in part, the importance Italy places on the role of developing countries in developed country growth. [REDACTED]

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JAPAN

In a speech at the recent OECD meetings, Minister of International Trade and Industry Yamanaka contended that advanced nations should take concerted action to stabilize exchange rates. Moreover, during testimony before a parliamentary budget committee in March, Prime Minister Nakasone stressed that stability in exchange rates is indispensable for revitalization of the world economy. [redacted]

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During his 11-day trip to ASEAN countries in early May, Nakasone repeatedly promised to carry the LDC message to the Summit. Speaking at the OECD meeting, Yamanaka emphasized the need debt-ridden countries have for access to export credits. In April there was a flurry of press reports, quoting sources close to the Prime Minister, indicating Nakasone would propose a \$500 billion Global Investment Fund to aid financially troubled LDCs. [redacted]

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Comment: While Yamanaka did not specify what action to stabilize exchange rates he had in mind, he personally favors a return to a fixed exchange regime. However, the official Japanese position -- as stated by Finance Minister Takeshita in late February -- is that it is not yet time to abandon the floating system. We believe that Nakasone views coordinated intervention among Big-Seven countries as necessary to achieve exchange rate stability. On North-South issues, most officials in Tokyo concur with Yamanaka's view that both freer trade and increased aid are key in resolving LDC debt problems. Nakasone may float the Global Investment Fund idea, but we doubt he will push it very hard. [redacted]

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CANADA

Trudeau, in his speech to the Canadian Institute of International Affairs on 6 May, stated: "We must use the engine of recovery to remove trade barriers which were introduced as temporary measures during the period of recession. We must commit ourselves to resist more subtle but equally destructive predatory trade practices." Lalonde, in the Wall Street Journal, tempered this somewhat: "Still, in a country like Canada, it is essential that the government be ready to take steps in the national interest that, in a larger economy like the US, may not be required (because the) economy is so much stronger than ours by its sheer size. And the fact that we are so close to it will require that the state be ready to intervene in the national interest at various times, depending on the situation. You just can't transfer the American experience into Canada, and you just can't expect Canada to behave just as if it were a smaller United States, or even worse, as if it were just another state of the union." [redacted]

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In the same Wall Street Journal article: Question: "Do you think the industrial nations need to rethink the international monetary system, as Treasury Secretary Regan has suggested?" Lalonde's Answer: "We are very concerned about suggestions that somehow what we need is a total overhaul of our international monetary system. We are ready to talk about adjustments or steps to be taken that might improve the system. But we have been struck by the resilience and the flexibility of the international monetary system in the face of the recent crisis." [redacted]

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[REDACTED]

Lalonde responded in a similar vein to President Mitterrand's 9 May call for a conference to consider restoring currency parities. Press reports quote Lalonde as saying that Canada's floating exchange rate regime of the last several years has served the country well and that in attempting to tackle the issue of international exchange rate fluctuations, "there is a danger of starting at the wrong end of the issue." Lalonde suggested that exchange rates themselves are not the problem but rather a reflection of other, more fundamental problems -- domestic economic policies, balance of trade and payments, domestic inflation rates -- that cause them to diverge. Lalonde added that Mitterrand's suggested conference "shouldn't take place without a very long and careful preparation." [REDACTED]

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Trudeau again, in the Canadian Institute speech: "We must come to grips with the continuing pressures on the international financial system, to ensure that the instruments, the resources, and institutions are adequate to the tasks of both long-run global recovery and short-term emergency. Emergencies need to be met in a manner which is tailored to individual circumstances, and which honors the fundamental principles of prudence which guide both domestic economic management and the operations of the international banking system. However, I will urge my Summit colleagues to address the need for fully adequate financial flows to sustain Third World recovery, and to alleviate the deep deflationary pressures which now play on those economies. As I said elsewhere, I believe some of the proposals emerging from the non-aligned movement merit careful study, and I look forward to the results of the IMF examination of the call for a further allocation of special drawing rights. We must, as well, support and invigorate the key institutional areas of enlightened internationalism -- the Bank, the Fund and the GATT. We must continuously find ways to strengthen the capacity and credibility of these institutions. We must facilitate closer political management of these bodies and create more effective links between them." [REDACTED]

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While admitting recently that he will argue his "North-South fad," Trudeau commented in the House of Commons on 15 December 1982: "Mr. Brandt and his colleagues suggested the convening of a Cancun-type conference and were very profuse in their congratulations to Canada for having played a leading role in the Cancun Conference. If the Honorable Member is really trying to find out whether Canada is on the same wavelength as the Brandt Commission, the answer is that we have been saying for a long while that the North-South problems are very grave and that they are linked not only to the peace of the world but to economic recovery. We have been saying that. We believe that, but it does not mean that we can give Mr. Brandt or any other organization a blank check on the future." [REDACTED]

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Comment: Trudeau has repeatedly voiced concern about the increasing number of protectionist measures, particularly in the United States, but he has shown considerable reluctance to limit Canadian protectionism. He will consider measures for improving the international finance system but will resist altering the basic framework of existing institutions. Trudeau has criticized the United States for the stretch-out of IDA-VI commitments. [REDACTED]

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[Redacted]

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EAST-WEST

WEST GERMANY

A senior Chancellery spokesman on 15 April described East-West trade as "an important but not the outstanding topic" at the Summit and added that Williamsburg must not become a "second Versailles." West German officials -- including Kohl -- appear well-satisfied with Summit preparations, particularly since they now believe East-West trade issues will not play a major role in discussions. [Redacted]

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However, in an interview in an economic weekly last week, Economics Minister Lambsdorff strongly criticized the provisions of the US Export Administration Act. Lambsdorff said application of these provisions to West Germany and other European countries would be "entirely unacceptable, something that will be made clear to the United States at the Williamsburg Summit." [Redacted]

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[Redacted]

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FRANCE

The following quotations were taken from an interview given by Mitterrand to three French journalists and published in Le Monde on 26 November 1982. Although the interview covered domestic as well as foreign issues, Mitterrand could be sure that publication in Le Monde would ensure him a wide foreign audience. [Redacted]

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"Whatever happens, Russia will want to preserve its sphere of influence, guarantee its security, and continue its ideological and political advance on all continents; those are the constant elements of the state of power; to forget them would be fatal." [Redacted]

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"I am hostile to any form of economic blockade on Russia, and France will not break off its trade with that country. But I would add that a lasting and excessive balance of trade deficit to our detriment would very quickly take on a regrettable political significance. Nobody doubts that I will be faithful to the pledges made together with our allies on so-called strategic products. But I do not want us to reach insidiously the point of calling the sale of butter or chickpeas to Russia strategic." [Redacted]

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[Redacted]

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[REDACTED]

"What you refer to as a failure was already a failure in Ottawa one year previously and will be a failure in Williamsburg next year if the summits in question continue to be, as I found them when I arrived at the Elysee, propaganda platforms for internal political use. The Atlantic alliance has been leaning toward misunderstanding for too long; if a decision was taken to clarify matters, that would already be a favorable reform. That is what France did with regard to the gas pipeline and the US embargo. That is also what it did by refusing to describe what was not an agreement as an agreement on East-West trade. France's sovereignty is not open to bargaining. I do not like that to be forgotten. But nor am I resigned to the deterioration in an alliance which would be more precise and effective if it moderated its appetite." [REDACTED]

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UNITED KINGDOM

In the Fortune interview, Thatcher stated: "We've always made it clear that technology transfers which can be useful to the USSR militarily must not take place. Then you come to a sort of grey area where they could be useful, perhaps militarily, but their main use is civilian. It's this grey area which is difficult, but I hope we can agree. I do not wish that debate to dominate the headlines of the Summit. There are very big things to discuss." [REDACTED]

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Comment: London has repeatedly expressed its dissatisfaction with US attempts to apply extraterritorial enforcement of its laws to US subsidiaries in the United Kingdom. The United Kingdom has invoked its Protection of Trading Act to order firms in the United Kingdom not to comply with the US law. Senior UK policymakers and Thatcher vociferously attacked the United States for its pipeline sanctions and refused to recognize the US arguments for their application. [REDACTED]

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ITALY

In a late March conversation with Ambassador Rabb, Foreign Ministry Director General for Economic Affairs Maurizio Bucci:

- Expressed strong agreement with the general proposition that Soviet access to high technology needed to be greatly restricted.
- While endorsing the view that the Soviets should be subject to tighter export controls and denied subsidized interest rates, thought it important that stricter ground rules not be used as a form of economic warfare.
- Agreed that extreme care has to be taken to avoid the kinds of misunderstandings which occurred after the Versailles Summit. [REDACTED]

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Comment: Rome sees East-West trade as providing lucrative trading opportunities which are especially welcome at a time when domestic demand remains weak. In addition, Rome does not believe that economic warfare against the Soviets will succeed because of the strength of the Soviet economy and the availability of alternative suppliers. [REDACTED]


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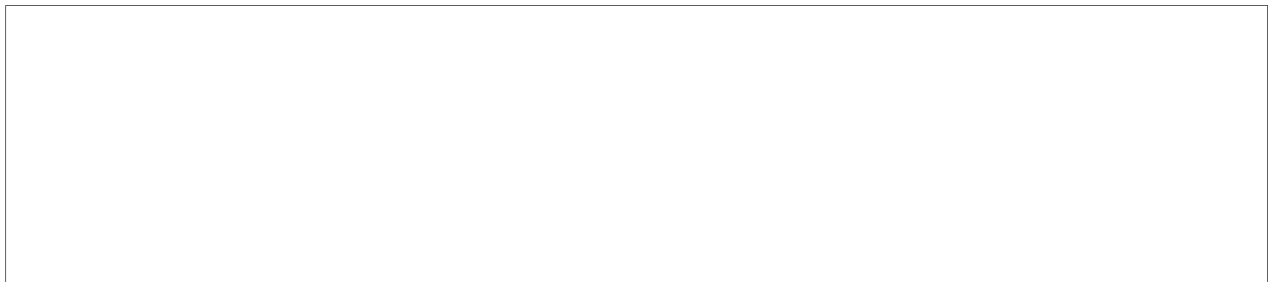


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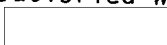
Addressing the Diet Foreign Affairs Committee in April, Foreign Minister Abe declared that in the future Japan, the United States, and Western Europe should determine jointly any economic sanctions against the USSR. Addressing the OECD Ministerial, Abe called for swift revision of the export credit interest rate system. He added that he fully understands the US position on the elimination of the subsidy element for Category I countries. He, along with other officials in Tokyo, are unhappy with the 0.3-percentage-point premium imposed on Japanese official export credits because of low domestic interest rates. 

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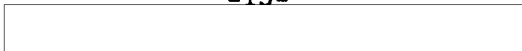


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CANADA

Comment: Trudeau generally has avoided commentary on East-West trade issues and has urged avoiding the contention of the Versailles Summit on this issue. While not completely in agreement with the United States -- of special concern is extraterritoriality -- Trudeau appears to be satisfied with the progress of the various studies commissioned last fall. 

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