WHORM Subject File Code: FO006-06 (Economic Summit, Williamsburg, Virginia, 05/29/1983-05/30/1983)
Case file Number(s): 150193 (5 of 5)

19

May 23, 1983 - 9:00 a.m.

PROPOSED MEDIA EVENTS
PRE-SUMMIT

Wednesday, May 18

-- Shultz interview with Business Week
Done

ACTION: State

-- Foreign Press Center briefing: Regan
Done

ACTION: Treasury

Thursday, May 19

-- RR: Interview with Helen Thomas.
Done

ACTION: Gergen/Speakes

-- WH background briefing for weekend stories: Wallis/Nau/Sprinkle.
(Done on individual basis)

ACTION: Gergen/Allin

Friday, May 20

-- Roosevelt Room columnists and magazine briefing: Shultz
(1:30 p.m.)
Done

ACTION: Gergen/Small

-- Wallis interview with Canadian Broadcasting Corp.

ACTION: State

Sunday, May 22

-- ABC "Brinkley Show": Secretary Regan.

ACTION: Treasury

Monday, May 23

-- Background briefing for specialists (at WH): Regan/Wallis
(2:00 p.m.) Roosevelt Room

ACTION: Gergen/Allin/Small

-- Foreign Press Center briefing by Nau

Tuesday, May 24

-- General briefing for WH and National Press Corps (on camera):
Regan/Shultz 11:30 a.m. (T) - 450 EOB
Wallis, Nau, Sprinkle to follow
on background

ACTION: Gergen/Speakes/Allin

-- Dam interview with French TV.

ACTION: State

-- Wallis interview with BBC-TV

ACTION: State

Thursday, May 26

-- RR: Interview with foreign TV from six participating countries.

ACTION: Gergen/Allin

-- Shultz speech to Foreign Policy Association.

ACTION: State

-- RR: Meeting with PM Fanfani of Italy.

Friday, May 27

-- RR: Meeting with PM Nakasone of Japan.

-- RR: Interview with select WH print and TV press and 3 foreign print press. (embargoed for Sunday) (10:00 - 10:30 a.m.)

ACTION: Gergen/Speakes

-- RR: Arrival Statement - Providence Hall, Williamsburg.

ACTION: Gergen

-- CBS "Morning News": Secretary Shultz.

ACTION: State

-- NBC "Today Show": Secretary Regan.

ACTION: Treasury

Saturday, May 28

-- RR: Radio speech on summit (pre-taped Friday).

-- RR: Bilateral with President Mitterand of France (Williamsburg).

-- RR: Greetings to incoming heads of state (Williamsburg).

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In Addition

-- Press background book to be completed.

ACTION: Allin, Rentschler

-- Op-ed pieces to be prepared, distributed to press.

ACTION: Rentschler/Small

-- Radio interviews, major call in shows.

ACTION: Small

-- Individual interviews with key administration officials.

ACTION: Bistany

-- Theme papers, GIST papers to be completed.

ACTION: Rentschler

POST-SUMMIT MEDIA EVENTS

(to be expanded)

Monday, May 30

-- ABC "Nightline": Taped interview with Sec. Regan (post Joint Statement).

ACTION: Treasury

Tuesday, May 31

-- RR: Interview with select WH print and TV press and 3 foreign print press in Oval Office. (pool) (2:15 - 2:45 p.m.)

ACTION: Gergen/Speakes

-- ABC "Good Morning America": Sec. Regan

ACTION: Treasury

-- NBC "Today Show": Sec. Shultz

ACTION: State

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May 23, 1983

COMMENTS ON ATTACHED THEMATIC PAPER

The thematic paper (attached) served as the basis of our discussion at the last sherpa meeting and is now regarded by all governments as the common briefing paper or point of departure for the heads for their discussions at Williamsburg. It is not related in any way to the joint statement that will be issued at Williamsburg but is at best, as we put it at the last sherpa meeting, raw material for the discussion at Williamsburg, which is in turn the raw material for the joint statement. Since the organization, balance, and upbeat tone of the thematic paper are favorable from the point of view of the President's interests, we should seek to preserve important elements of this paper in the discussions among the heads and thereby to incorporate them in the instructions for the drafting of the joint statement.

Following is a brief summary of the major issues that arose in the discussion of the thematic paper at the last sherpa meeting, leading to the final revised thematic paper at Tab A.

I. Summary Introduction

There was objection from the French, EC, Canada, and the UK to stating the policy actions in the form of linkages between growth and trade, trade and finance, and growth and monetary stability. They argued that this presentation gave too much emphasis to trade and relatively downplayed the role of high interest rates, budget deficits and exchange rate instability as the major obstacles to growth. They proposed that the policies be stated as separate ticks--one for growth, one for trade, one for finance, and one for monetary stability--and that the linkages be dropped. This alternative facilitates the identification of single issues and single solutions. We resisted, arguing the importance of an integrated and balanced approach that followed from emphasizing linkages. Eventually, as the revised final version of the thematic paper indicates, we agreed to identify the interrelationships first and then to list policies separately that exploit and reinforce these interrelationships.

II. Assessment: Realistic Optimism

There was a general agreement that the balance between progress and remaining problems in this section was about right. The French, supported by the British, Canadian, and EC, displayed great sensitivity to any statement that improvements were evident in only some countries. They argued that the nature and pace of improvements were different in different countries but that all were improving. (Pointedly, we asked what forecast they were referring to.) Unemployment, especially among young people of the French economy, was elevated to a central place as the key remaining problem, while the other problems were identified as threats to the enduring recovery needed to reduce unemployment. The Japanese, supported by others, proposed a reference to the "much more acute" conditions in developing countries.

III. Common Approach to a Sustained Recovery

The items that attracted greatest controversy were the trade items (5th through 8th ticks). The French, EC, and British sought to water down the "reverse protectionism" tick until they were reminded that this was language that had just been agreed upon at the OECD Ministerial Meeting. This same group with Canadian support resisted identifying key "current problems" for early resolution, especially the agricultural and safeguard items. The French further opposed adamantly the reference to a study on liberalization of trade in high technology products, especially to any suggestion that such study would be done in GATT. Eventually, this item was incorporated into the "reverse protectionism" tick, preserving our interest in identifying barriers in this area as trade-distorting domestic measures. Finally, this same group of countries, also with Italian support, sought to water down the reterence to new trade liberalization talks in the GATT.

The Canadian, Japanese, French, and EC also sought to beef up the references to aid and the dialogue with developing countries. Here the British stood with us, while the Germans went along with the others, on political but not financial aspects of the issue.

IV. Longer-Term Policy Goals and Decisions

The controversies here centered on intervention, the international monetary conference and an new GATT Ministerial. The French and EC argued for a tick that would say intervention helps to promote economic policy convergence. Our argument, of course, is just the reverse. We agreed to add on the phrase, "continuing our agreements on exchange market intervention," to the tick on economic policy convergence. The French, supported by others, insisted on recognition of Mitterrand's call for on international monetary conference. We resisted. Eventually, we added a tick that invited Finance Ministers to define the conditions for improving the international monetary system and in that context to consider the role which an international monetary conference might play in due course. Finally, the French supported by others, opposed a GATT Ministerial and insisted on parallelism in how we treat a new trade conference and an international monetary conference.

The Germans argued for a new tick on preservation of natural resources, and the Japanese sought reference to the improvement of health.

HN

Henry Nau

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 significasntly 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 sustainble 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 ecnomy 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 aequate 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.

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Los Angeles Times -- 5/23/1983

Mitterrand to Soften Stance at the Summit

Aides Say He'll Try to Avoid Clash With U.S. Despite Complaints

By DON COOK,
Times Staff Writer

PARIS—French President Francois Mitterrand will go to the economic summit at Williamsburg, Va., late this week with a lot of complaints about American policies, but his aides say he will not seek a confrontation that would disturb the outward harmony of the annual meeting of seven industrial democracies.

"There will be discussion, of course—that's what the economic summits are for," one of Mitterrand's aides said last week. "But no confrontation. The whole purpose is for heads of government to get a better feel and understanding of how each other's thinking is running, how each sees the problems and how minds are working."

If his advisers are correct, the French president has decided to tone down some of the more outspoken comments that he and his finance minister, Jacques Delors, have been making in the past two weeks—in particular about high U.S. interest rates, the high American budget deficit, and the refusal of the United States to intervene more actively in currency markets to hold down the latest surge in the value of the dollar.

Blames U.S. Deficit

"It is not normal that the American budget deficit should be paid by us in particular," Mitterrand told a news conference last week after a bilateral meeting in Paris with West German Chancellor Helmut Kohl. "It is not normal that this considerable budget deficit keeps interest rates high. It clearly shows only limited confidence in keeping down American inflation. High deficits mean high interest rates, and that is one of the reasons for a high dollar and world disequilibrium."

However, Kohl, who sat beside Mitterrand at the news conference, pointedly declined to endorse these criticisms beyond saying that "the problem of the dollar's value will be the subject of intensive discussion" at Williamsburg and that he wanted the summit, which begins Friday, to result in "confidence and hope."

Nor has the sharply critical

Please see SUMMIT, Page 4

SUMMIT: Views

Continued from First Page

French line found any open support from other summit participants—Britain, Italy, Canada or Japan. All agreed that there is an economic problem, but they do not see it the same way as the French.

And on Sunday, U.S. Treasury Secretary Donald T. Regan denied that U.S. budget deficits are to blame for the weakness of the French franc and for France's sluggish economy.

"A nation's currency is a reflection of a nation's economic policy and the state of its economy. If it is weak versus the other nations it's because of something internal, not external," Regan said during an interview on ABC's "This Week with David Brinkley."

Many observers agree that Mitterrand's real problem is the weakened state of the French economy, for which his own policies—implemented only two years ago—are to a large degree responsible. While it is true that high interest rates and other American factors may be aggravating things for the weakened French economy right now, this is not the case in West Germany, Britain or Japan, where a turnaround toward recovery is clearly visible.

However, Mitterrand's advisors say the president will go to Williamsburg unrepentent over his former policy of expansion and increased public spending.

But the French president is likely to present his views in prudent and careful terms. He is not in a good position to make demands. And if he gets a promise to study his unexpected trial balloon of two weeks ago—for a new international monetary accord— he will return to Paris satisfied politically with his Williamsburg visit.

Baltimore Sun
5/23/1983

Summit will wander from economic core

By Henry Trewhitt
Washington Bureau of The Sun

Washington — One almost certain result of the economic summit at Williamsburg, Va., next weekend will be rousing endorsement of new missiles for NATO — due by year-end unless the Americans and Soviets cut a deal that makes them unnecessary.

A strange topic for a meeting about economics? Not really. Beginning with the first such meeting in 1975, the summiteers from the indus-

Analysis

trial democracies have ranged informally over the political and strategic issues — economics aside — that divide and unite them.

On occasion, they have even gone public with the results. At Venice in 1980, they publicly demanded Soviet withdrawal from Afghanistan and de-d the seizure of American diplo-s in Iran.

Usually, however, they have luxuriated in their freedom to hash over political problems without having to produce results or account publicly for freewheeling talk.

The question of missiles for the North Atlantic Treaty Organization (NATO) is an easy one at the moment. Leaders of the United States, Canada, Britain, France, West Germany and Italy agree on the deployment plan.

The Japanese do not count directly on this question, though they are worried about Soviet missile deployments in Asia. Prime Minister Yasuhiro Nakasone probably can expect a missile announcement to say any future deal must limit Soviet missiles in Asia as well as in Europe.

It may be the only truly substantive issue on that the volatile mix of egos and personalities at Williamsburg can produce a consensus. Even that consensus may be frayed in coming months, as public anti-nuclear sentiment evolves, with differing political effect on different leaders.

For now, though, a U.S. diplomat s with a laugh, "Let's take what can get."

Otherwise, the non-economic themes on the informal agenda at Williamsburg are likely to generate brisk discussion. Besides arms control, they are expected to range over East-West relations generally and the

President Reagan, as a conservative, can expect a more sympathetic hearing from Prime Minister Margaret Thatcher of Britain and Chancellor Helmut Kohl of West Germany than he might from, for example, Mr. Kohl's predecessor, Helmut Schmidt.

Only last week, however, Prime Minister Pierre Elliott Trudeau of Canada disagreed briskly with Mr. Reagan's hard line toward the Soviet Union. Mr. Trudeau found some merit in fears that Mr. Reagan is "warlike . . . not to be trusted."

Others at the summit share those concerns, although less noisily. It will be remarkable if none of this concern surfaces. For example, although French President Francois Mitterrand, a socialist, agrees with Mr. Reagan about missiles, he disagrees with him on almost every aspect of economic policy.

Differences over the Middle East appear to have subsided. The Europeans once took a uniformly critical position toward Israel. They are less critical publicly now. Italian, French and British troops have joined the U.S. at peacekeeping in Lebanon.

The most treacherous political issues at Williamsburg will be the economic ones. Politics and economics are inseparable; each leader's political attitudes on economic issues will be different.

Most of the other participants say Mr. Reagan must bring down the U.S. budget deficit to reduce interest rates for their common good. All, including Mr. Reagan, will preach against trade protectionism — without certainty that politics will permit them to abandon it.

Mr. Reagan is hopelessly isolated from the others on what should be permissible in East-West trade. He opposes the eastward flow of technology that might contribute to Soviet military power while energetically selling grain the same direction. The others agree in principle about technology but claim that Mr. Reagan's criteria are self-serving and would cost them jobs.

Congress may be removing one issue from the summit — a Reagan trade bill on what offended Europeans call "extra-territoriality."

The legislation would authorize penalties against any firm under U.S. ownership or license that sold proscribed goods to the East bloc. The proscription would be decided in Washington by administration standards of national security. In effect, the legislation would legitimize the means by which Mr. Reagan tried — and failed — to stop the Siberia-West Europe pipeline last year.

Because the bill has encountered great skepticism in Congress, the summiteers, if they choose, apparently can safely ignore what they regard as attempted infringement on their sovereignty.

The unanimous decision in advance — even on the part of Mr. Mitterrand, the most belligerent of the group — is to avoid feuding if possible on this and other issues.

It will be a tricky business. Success will depend on such uncertainties as how each country handles its public relations. Last year's meeting at Versailles would not have been recorded as a destructive brawl, had Mr. Mitterrand and U.S. Treasury Secretary Donald T. Regan not given contradictory public interpretations of vague agreements.

What is necessary, a U.S. diplomat says, is thorough discussion, agreement on generalities and "then getting out of town in one piece." What is not advisable, he says, is an attempt to solve issues that have been insoluble for years.

If the objectives are so limited, is there any point in continuing the annual meetings? Most specialists on all sides say yes.

The diplomatic platitudes, such as "full and frank exchange of views" and "agreement in principle," do in fact mean something, they say. What they mean, in practical terms, is that the leaders can take each other's measure and reap at least some political reward.

Francois Mitterrand can judge Ronald Reagan's determination and ability. Mrs. Thatcher, campaigning for reelection, can present herself as one of the world's movers and shakers. Mr. Reagan may find his views changed about what is practi-

Wall Street Journal -- 5/23/1983

The Outlook

As Summit Nears, Hope Is in the Air

WASHINGTON

Meeting with journalists in Paris recently, U.S. Treasury Secretary Donald Regan surveyed the paintings on display in a rented dining-hall and jocularly provided his own captions. The placid group scene, he said, represented the finance ministers of the Western democracies. A second portrayed the heads of state. "And that one," he twitted, pointing to a gaudy battlescape of conquistadores, spears, shields and general confusion, "that's the press description of the summit."

Recalling the blow-up among the Western allies that followed last year's economic summit at Versailles, it's tempting to suggest that the final canvas might not have been inaccurate. Although no spears were evident at Versailles, the U.S. and its allies got into a political jousting contest that ultimately led to U.S. imposition of the Soviet gas-pipeline embargo—and serious strains on the whole Western alliance.

This year, as the May 28 economic summit at Williamsburg, Va., nears, the difficulties seem almost as foreboding. Unemployment continues high throughout the industrial world. The international debt situation still is precarious. Protectionism is on the rise. And Europeans complain almost daily about high U.S. interest rates and the impact of the "overvalued" U.S. dollar. For those whose taste runs to battlescapes, there's plenty of inspiration.

In truth, however, the major Western governments seem more united than they have been in years on how to cope with the world's economic problems—and far more willing to work together. At a meeting of the 24-country Organization for Economic Cooperation and Development two weeks ago, foreign ministers and finance ministers had no trouble at all hammering out common policies on a broad range of economic and political issues that only a year ago still were causing frictions. "There's been a significant convergence of views over the past few months," says a senior West German official who has been in on many of the negotiations. "All our differences haven't been resolved. But I think basically the allies finally are all thinking along the same track."

The accord is evident on a number of fronts:

For all their differences in past years, the industrial nations generally are agreed on overall economic policy. There's more willingness to contain protectionism than six months ago. And the issue of trade with the

The convergence stems from several factors. The prolonged worldwide recession has dampened expectations, taking the edge off previous demands. On some issues, the allies have agreed simply to paper over some of their differences. At the same time, the dramatic slowing of inflation in recent months—and the sweet whiff of an emerging Western recovery—has made the allies more accommodating. Hope is in the air.

But part of it, too, is that the Western governments have made some concrete progress in moving closer on key issues. The industrial countries have developed a workable—albeit patchwork—system for handling the international debt problem. A new study on the impact of currency market intervention has helped narrow U.S. and European perceptions of the issue of volatility in exchange rates. The allies have reached a compromise on how to cut back on the use of government credits for export financing. And both sides are working quietly to defuse their problems over agricultural subsidies.

Even on broad bread-and-butter issues, there's a better understanding. For all its rhetoric, even France has now joined its partners, after a fashion, in putting the anti-inflation fight first. The Polish debt crisis has made Europeans more willing to listen to U.S. warnings about trade with the Eastern bloc. And the improved U.S. economic situation has softened European complaints about American economic policy.

At the same time, Washington has moved closer—in tone, if not in practice—toward accommodating European concerns about the high U.S. dollar and the exchange-rate question. The administration has muted—and recast—its admonitions about East-West trade. And, partly as a result of the world debt problem, the U.S. has reversed its onetime opposition to increasing the lending resources of the International Monetary Fund. Quips a South Asian diplomat: "In Asia, we thank our lucky stars for the Mexican debt crisis."

Even Western disputes with developing countries have been tempered. The Third World has toned down its demands for massive new aid programs. Hopes for more serious North-South discussions have been raised anew.

To be sure, the finance ministers are far from the point where they can sit for the sort of pastoral portrait that Mr. Regan's light-hearted needling suggests. France still poses the threat of disrupting both the summit and, ultimately, the West's economic strategy. And to some observers, the new gloss is more a matter of appearance than reality. "Part of the new unity is artificial," complains Albert Bressand, deputy director of the Paris-based French Institute for International Relations. "It's very much like a married couple that has stopped arguing: This translates into less debate, but it's more worrisome for the longer run."

Still, compared even to a year ago, the Western democracies have come a long way toward reconciling their economic differences and hammering out a common strategy. That may not end the image of conquistadores, spears, shields and general confusion. But it ought to make managing the

The Boston Globe -- 5/23/1983

The problems facing summit

By Thomas Oliphant
Globe Staff

WASHINGTON - All over the non-communist, industrialized world you can almost hear the symbolic sound of bullets being bitten.

Hardly anyone talks in terms of prosperity, of full employment, of a bountiful future, of significantly diminished poverty. It's a safe bet that when the leaders of the seven largest of these countries gather in Williamsburg, Va., for their annual summit next weekend, those kinds of words will not be found in whatever communique is issued.

Instead, there is a new rhetoric reflective of diminished dreams; leaders speak of corners being turned, of quick fixes avoided, of "sustainable" growth, of the much more serious crises that have been avoided. In this national capital, the future is referred to by politicians with perhaps subconscious defensiveness as the "out-years."

For a generation, economists and politicians have debated whether policies should concentrate on conquering unemployment through expansionary policies or on inflation through what amounts to austerity. The debates continue, but austerity policies are now in place virtually everywhere, including Socialist-led France.

terms of their expressed purpose, ...re having an effect. The worst of ...ightening double-digit inflation ... of the second half of the 1970s - led by gigantic increases in oil and food prices - is past, even if the progress has been uneven and slow in countries such as France and Italy.

Double-digit unemployment

But the cost has been great: a virtual halt to economic growth for more than a year until this January throughout the developed world, apart from Japan; and the substitution of double-digit unemployment rates in several countries for the previous inflation rates, again, outside of Japan.

And now comes recovery - after a fashion. By consensus, if what is going on merits that term, it will be highly unusual, characterized by very slow growth rates in the economies that will begin the process this year, barely perceptible progress against unemployment, and black clouds at all times in the form of still-high interest rates and $600 billion in shaky outstanding bank loans to at best water-treading developing countries.

This will be the first summit (of nine so far) without Helmut Schmidt, who resigned last year as chancellor of West Germany when his Social Democrats lost their working majority. His occasionally grumpy candor will be missed, but in a recent speech he spoke up for the cause of dissatisfaction: "The world economy is in undeniably bad shape. It is ...ot incurable, but governments must ... to their responsibilities. Today ...nments appear paralyzed, unable ...e political decisions."

In principle, only President Francois Mitterrand of France among those going to this year's summit might agree. The others seem comfortable with or resigned to the proposition that there is little they can or should do to alter the course of economic events over the next year, whatever they may be. The eventual communique's language notwithstanding, that is one conclusion of the summit that is preordained.

There are two reasons: the economic muscle of the United States and the policies of Ronald Reagan.

It is an old joke at economic summit time that the President of the United States is in a unique political position - he can't blame all or part of his troubles on America. It usually gets a chuckle, but the fact is that Canadian Prime Minister Pierre Trudeau was not just pitching to the home crowd when he said in his major presummit speech this month, "We cannot escape from the world, nor can we bring about total independent recovery."

US yearly output $3 trillion

The yearly output of goods and services in this country is more than $3 trillion. Of the others going to Williamsburg (Great Britain, France, West Germany, Italy, Canada and Japan) only Japan has passed the $1 trillion-mark. Just as important, the dollar is the one true worldwide currency.

"The common analogy has the American economy as the locomotive. As such, it is not pulling very hard, with effects right down the line for countries that make a good deal of their livings selling goods to US consumers.

The situation is best symbolized by the sequence of events followed by the Commerce Department in reporting its estimate of the economy's total output, or gross national product, for the first quarter of this year.

In March, the first educated guess was an annualized growth rate, minus inflation, of 4 percent. The result: strong optimism about the recovery's potential. In April, the first formal estimate of the quarter was 3.1 percent. The result: muted satisfaction. Last week, the department's final revision of the complex numbers produced an annual growth rate of 2.5 percent. The result: a good deal less satisfaction.

Such as it is, the recovery had its origins in an improved financial climate that began last summer, following passage of a tax increase that was designed to lower future budget deficits. Following this fiscal policy signal, the Federal Reserve changed course and permitted substantial increases in the supply of money to occur while leading an effort that brought interest rates down from high to low double-digit rates.

Today, Americans are buying more automobiles, they can afford to buy more homes and lately more appliances as well, and this consumer-led recovery has been accompanied by a small decline in the unemployment rate. Prices, given the immense amount of slack still in the economy, have been essentially stable for months.

When he visited Reagan earlier this month, Trudeau put aside his great concerns about the future long enough to tell the President, according to US and Canadian officials, that the situation had at least been turned around.

Canada's economic ties

Given the fact that Canada's economy is more closely tied to that of the United States than any other summit partner, it is not surprising Trudeau would say that. While the US economy was dipping last year, Canada's gross national product plunged by nearly 5 percent in inflation-adjusted terms, as unemployed soared above 11 percent. This year, following the behemoth to the south, Canadian officials expect growth of somewhat more than 2 percent, without any significant improvement in joblessness.

The effect is also visible in West Germany, where an improved climate in the US market for its exports has been a factor in at least turning around an economy which was in decline last year by almost as much as in the United States; growth in West Germany will be slightly positive this year (about 1.5 percent). However, the cost of stern budget and monetary policies to get inflation below 5 percent has been high and will continue to be so; there is little chance that unemployment will be much less than 10 percent for at least a year.

The clouds on the US horizon are now famous: very high interest rates for this stage of the economic cycle, stemming from fears about the eventual impact of $200 billion annual budget deficits that Reagan and Congress seem unable to reduce. These clouds not only put a damper on the US recovery - and might someday halt it - they also have a considerable influence on the performance of the economies of Europe and Japan.

Where the US situation makes a difference is at the margin, but it is a crucial difference - often between growth and no growth. The current dynamics work like this: Higher interest rates attract foreign capital here that would otherwise go for job-creating investments; along with other factors, they also help to increase the relative value of the dollar, a problem because many crucial raw material imports, above all crude oil, must be paid for in dollars. Finally, to the extent interest rates retard growth in the United States, exporting countries elsewhere lose business. The impact is especially damaging in the developing world.

The effects, though, vary widely and are complicated by the always more important national differences.

In Britain, long-term policies

In Britain, for example, the conservative policies imposed by Prime Minister Margaret Thatcher were designed to have a long-term impact on the problem of the country's economic decline and increasingly chronic inflation. Though she often is described as Reagan's ideological soul-sister, senior British officials have taken lately to half-boasting that her policies have been more consistent, noting that large income tax cuts were coupled with consumption tax increases to avoid budgetary problems and encourage investment, and that monetary policy has been much more stable than in the United States.

This year, there is at last a recovery, with growth likely to average around 2 percent but reaching an annual rate of 3 percent by December - with additional positive factors of a decline in inflation well into single-digit levels and a stronger balance-of-payments position. On the other hand, there is virtually no chance the country's persistent joblessness will improve, with the unemployment rate apparently stuck well above 11 percent for as far as most forecasters can see. Interestingly, in a mixture of conviction and pre-election independence as regards Reagan, Thatcher told a Newsweek interviewer earlier this month that she believes the British recovery would have begun in the fall of 1981 but for the aforementioned impact of US interest rates.

By way of contrast, France is distinguished by (in addition to Mitterrand) continued double-digit inflation, a two-year effort that failed to create growth through old-fashioned governmental pump-priming, an abrupt switch in March to a painful austerity program, and three devaluations of the franc.

Things probably will get worse before they have a change to get better; Finance Minister Jacques Delors has suggested that an additional 200,000 people will join the ranks (already 2 million strong) of the unemployed, and the jobless rate probably will be well above 9 percent through next year. The worst of the inflation is probably over, but the slow progress back to single-digit territory (from a high of 14 percent in 1981) compared to the record in most other European countries will keep pressure on France's beleaguered currency.

Italy's Prime Minister Amintore Fanfani may complain less than Mitterrand, but his country's problems are every bit as severe, starting with chronic inflation above 16 percent for the last two years. On top of that, there has been no real growth in the economy since 1980 and there will be none until next year, with the 1984 outlook almost totally dependent on enough recovery in the United States and West Germany to produce an export-led comeback.

The only unique leader at Williamsburg will be Yasuhiro Nakasone, the prime minister of Japan, who faces not a one of the above problems. For reasons that many admire and just as many resent, Japan has high savings, strong investment, still-rising productivity, and inconsequential inflation and unemployment. Its growth rate "shrank" last year to the highest level of the Summit Seven (3 percent after inflation).

Interestingly, though, when asked last week what his country's primary international economic concern is, a senior Japanese official here quickly said, "High American interest rates."