

SUMMIT - Afternoon Session
June 6, 1982

PM Spadolini

Discussed need for control of inflation and how to cure unemployment problem. High interest rates are a problem. Rates of fluctuations of dollar have affected Italian lira and hurt their economy. He admits Italy's problems of inflation. Also has problems on the left. Has tried to get an incomes policy, but Communist Party had to be placated. Cooperation in monetary area is needed especially as we are not now in a fixed exchange rate mode as in Bretton Woods. Intervention by many countries is needed in such conditions. Should have agreement on reserves, capital flows, exchange rate as in EMS, keep inflation down. Need more productivity which has been ruined by inflation.

PM Trudeau

He shares Helmut Schmidt's views. Has two questions. There is a need to create an investment climate so

1) Question to all - Can we control inflation and recreate confidence in the future with acceptable rates of unemployment? Inflation is controlled in U.S. - down to 1% but at what price? In Germany, same thing; Great Britain, Canada, etc., high rates of inflation, but as it comes down unemployment up. Only exception is Japan due to historical factors, and a society not similar to others.

Cannot get inflation down while putting up rate of unemployment. This comes as a trade off. Must be a political will to

2

share sacrifices. Can democratic societies do this or should he pursue cure for inflation and forget unemployment. Or can we tell people to reduce expectations, standards of living.

2) Second question to President Reagan - Public opinion and economic decisionmakers feel real interest rates should and would fall when deficits come down. Worries about waiting for this. Can we wait many more months for this to happen?

Sherpas don't want to use the word "crisis" - "catastrophe" is better in communique. But we have a catastrophe, we can't wait, and yet tell third world our system is better. Misery, collapse of businesses, etc., he is worried about these things. How can we get over the next few months? Patience until the next election in U.S. is not something we can have. Congress must act sooner.

Can we (Seven Summitters) help Ronald Reagan in getting Congress to act by a statement or something - he doubts it - as a politician feels it would be counter productive.

But we should do something quickly; but how?

President Reagan

3:30 PM

Answered immediately. Told of President F.D. Roosevelt running for second term on platform of getting unemployment down to 14%. It took WW II to cure America's unemployment.

We have tried ever since to cure unemployment by Federal spending. It has never worked. Money supply also pushed to get same results.

Recession of 1980 was stimulated the same way. Result double digit inflation, and interest rates of 21%.

We, i.e. Ronald Reagan's Administration, tried another method. Getting the Federal Government's share of GNP down -- eliminate a lot of Federal regulations. Cut increase in the Federal rate of spending by half.

Also we put in an incentive tax program. We had the highest percentage of out of date factories and tools among Summit Nations.

Unemployment started in 1979. Ronald Reagan said he campaigned on this theme. It has increased somewhat, but not that much.

What brought on the recession? Fed Reserve pulled back too much money too quickly and brought on the recession.

We are cutting back on spending but interest rates are still high.

Gave examples of how some banks loaned money to buy automobiles at a below market rate. Sales spurted by thousands.

Went over leading indicators, other signs of recovery.

Said Congress votes next week on budget. GM is rehiring a few. Auto workers are agreeing to give back to keep plants open. Other industries are following.

Trudeau interrupted to ask if that would hold true when sales go up. President Reagan said "yes" because they (Management) now knew customers can stop buying.

Mitterand interrupted to say we have to get on. President of Japan made a few remarks; then turned to President of European Communities.

Martens

3:45

Social consensus needs to be met. People want less inflation, more employment, growth. We can also lessen our security problems if we can lick inflation. There are barriers. Need a durable decline in interest rates; need to cut down on volatility in exchange rates, and budget spending and deficits.

European Council made clear to Japan that it should pursue a trade and export policy that is fair to everybody.

EEC has responsibilities to cure its problems as Japan does, but Japan should not cure its domestic problems at others expense. We should have more cooperation.

We need more stable currencies. Some currencies are too strong - in spite of underlying economic facts - likes draft of monetary statement.

Mrs. Thatcher

4:05

Would like to answer TRUDEAU. Unemployment and inflation are not tradeoffs. Keynes himself said; deficits cannot help structural unemployment. Changes in trading practices cause unemployment. Technology and productivity cannot be helped by higher inflation.

Inflation at its extreme is ruinous. If we persist in it, we ruin our currency.

Countries around the table with low inflation also have low interest rates. Japan and Germany.

She agrees with Ronald Reagan to get down deficits on a falling scale - years over years.

Should cut deficits by cutting spending, not raising taxes.

We politicians arouse expectations. This causes higher spending and thus higher deficits.

They try to smooth disorderly markets in Great Britian, but do not have enough money to change the pounds direction.

We should not use the IMF as a global aid agency.

We should not have a stop and go policy on beating the recession. We should help small business. We should watch our spending on consumption and social programs.

Schmidt - Never got to speak.

Thatcher - You can control inflation.

Suzuki

We have kept inflation down due to Japanese people, and their character.

Government helped with public investment and speny a lot of money. Deficit was \$47 billion, Japan 12, USA 90 compared to size of budget. Yet this kept interest rates low. Intend to keep fair fiscal policies. Have been putting emphasis on domestic side. 5.2% real growth is good, 1% from exports, rest from domestic. Will speak later.

Schmidt

Correlation between inflation, currency, and exchange rates.

Does not defend inflation. Worst inflation eight years ago due to oil prices.

Now 4% going down to 3%.

Inflation started in U.S. due to Vietnam War, Pres. Johnson, guns and butter. Exchange rate of dollars could no longer be sustained. This leads us off Bretton Woods standard.

This left all governments off the discipline of fixed rates. We printed money to pay for oil. Floating rates let us all spend and print.

He saw a need to get back to a monetary system that goes back to fixed rates. This led him and some others to EMS, and fixed rates.

He would never spend to keep fixed rates. He like his dollar investments and their rates. He intervenes just to smooth out.

Told me "Mr. Secretary - I like your rates of interest, I invest my (sic) reserves in your bonds."

I told him - "Mr. Chancellor, don't get too used to those rates."

Americans have not been asked to intervene to change relationships but to smooth out.

The dollar has gone up in the last 3 weeks because of disappointment in getting U.S. real interest rates down.

Asks us to join them in intervening to smooth out rates but not to change ratios.

We publish money supply on weekly basis. It's bad in its effect on random fluctuations in the dollar. It's destroying calculability of the dollar. We should intervene more if we're going to publish weekly.

President Reagan

Falling rates in the U.S. are not panacea for everyone's trouble. Others can have high rates due to domestic policies - long after our rates are down.

We agree to Article IV of IMF to intervene in disorderly markets, which was agreed to at luncheon by Finance Ministers.

We cannot order Fed not to publish weekly figures on money, but we will relay your message.

Then talked of unusual period of inflation currently never before in history. It wasn't so for year in the past.

Cautioned on quick fixes for unemployment such as CETA where out of \$3 billion spent annually only. \$500 million went to training.

Mitterand

Nobody can accuse Ronald Reagan of going back on his principles!

There had been long periods of inflation in Roman times; also in Roosevelt's.

We have Finance Ministers working on trade.

Will also have a study underway on intervention.

G-5 will meet in Toronto with Director of IMF to look at be better economic cooperation, as it says in Communique.

SUMMIT - Afternoon Session

PM Spadolini

Discussed need for control of inflation and how to cure unemployment problem. High interest rates are a problem. Rates of fluctuations of dollar have affected Italian lira and hurt their economy. He admits Italy's problems of inflation. Also has problems on the left. Has tried to get an incomes policy, but Communist Party had to be placated. Cooperation in monetary area is needed especially as we are not now in a fixed exchange rate mode as in Bretton Woods. Intervention by many countries is needed in such conditions. Should have agreement on reserves, capital flows, exchange rate as in EMS, keep inflation down. Need more productivity which has been ruined by inflation.

PM Trudeau

We share Helmut Schmidt's views. Has two questions. There is a need to create an investment climate *so*

1) Question to all - Can we control inflation and recreate confidence in the future with acceptable rates of unemployment? We have controlled inflation in U.S. - down to 1% but at what price? In Germany, same thing, Great Britain, Canada, Etc. high rates of inflation, but as it comes down unemployment up. Only exception is Japan due to historical factors, and a society not similar to others.

Cannot get inflation down while putting up rate of unemployment. This comes as a trade off. Must be a political will to

share sacrifices. Can democratic societies do this or should we pursue cure for inflation and forget unemployment. Or can we tell people to reduce expectations, standards of living.

2) Second question to President Reagan - Real interest rates should and would fall when public opinion & econ. decision makers-feel deficits would come down. Worries about waiting for this. Can we wait many more months for this to happen?

Sherpas don't want to use the word "crisis" - "catastrophe" is better in communique. But we have a catastrophe, we can't wait ^{and yet} to tell 3rd world our system is better. Misery, collapse of businesses, ^{etc} he is worried about these things. How can we get over the next few months? Patience ^{until the} beyond next election ^{in U.S.} is not something we can have. Congress must act sooner.

Can we (7 Summitteers) help RR in getting Congress to act - ^{by a statement or something} he doubts it - as a politician feels it would be counter productive.

But we should do something quickly, but how?

President Reagan

3:30 PM

Answered immediately. Told of Pres. ^{F.D.} Roosevelt running for second term on platform of getting unemployment down to 14%. It took WW II to cure America's unemployment.

We have tried ever since to cure unemployment by Federal spending. It has never worked. Money supply also pushed ^{to get same result.}

Recession of 1980 ^{who} stimulated the same way. Result double digit inflation, and interest rates of 21%,

i.e. R.R. Adm.

We tried another method. Getting the Federal Government's share of GNP down - eliminate a lot of Federal regulations. Cut the Federal rate of spending increase by half.

also we put in an incentive tax program. We had the highest percentage of out of date factories and tools, *among Summit nations.*

Unemployment started in 1979. RR said he campaigned on this theme. It has increased somewhat, but not that much.

What brought on the recession? Federal ^{*Pres.*} ~~did~~ pulled back too much ^{*money*} too quickly and brought on recession.

We are cutting back ^{*on spending*}, but rates are still high. _{*interest*}

Gave examples of how some banks loaned money to buy automobiles at a below market rate. Sales spurted by thousands.

Went over leading indicators, other signs of recovery.

Said Congress votes next week on budget. GM is rehiring a few. Auto workers are agreeing to give back to keep plants open. Other industries are following.

Trudeau interrupted to ask if that would hold true when sales go up? Pres. Reagan said "yes" because they (Mgmt) now knew customers can stop buying.

Mitterand interrupted to say we have to get on. President of Japan made a few remarks; then turned to President of European Communities - Martens

3:45

Social concensus needs to be met. People want less inflation, more employment, growth. We can also lessen our security problems if we can lick inflation. There are barriers. Need a durable decline in interest rates; ^{*cut*} need to ~~get~~ ^{*down*} ~~down~~ volatility in exchange rates, and budget spending and deficits.

European Council made clear to Japan that it should pursue a trade and export policy that is fair to every body.

EEC has responsibilities to cure its problems as Japan does, but Japan should not cure its domestic problems at others expense. We should have more cooperation.

We need more stable currencies. Some currencies are too strong - in spite of underlying economic facts - like draft of monetary statement.

Mrs. Thatcher -

4:05

Would like to answer TRUDEAU. Unemployment and inflation are not trade offs. Keynes himself said, deficits cannot help structural unemployment. Changes in trading practices cause unemployment. Technology and productivity cannot be helped by higher inflation.

Inflation at its extreme is ruinous. If we persist in it, we ruin our currency.

Countries around the table with low inflation also have low interest rates. Japan and Germany.

She agrees with RR to get down deficits on a falling scale - years over years.

Should cut deficits by cutting spending, not raising taxes.

We politicians arouse expectations. This causes higher spending and thus higher deficits.

They try to smooth disorderly markets in Great Britain, but do not have enough money to change the pounds direction.

We should not use the IMF as a global aid agency.

We should not have a stop and go policy on beating the re-

cession. We should help small business. We should watch our spending on consumption and social programs.

Schmidt - Never got to speak.

Thatcher - You can control inflation.

Suzuki - We have kept inflation down due to Japanese people, and

their character

pick up p. 6 - part of same remarks

Government helped with public investment and spent a lot of money. Deficit was \$47 byn, Japan 12, USA 90 compared to size of budget. Yet this kept interest rates low. Intend to keep fair fiscal policies. Have been putting emphasis on domestic side. 5.2% real growth is good, 1% from exports, rest from domestic. Will speak later.

Schmidt:

Correlation between inflation, currency, and exchange rates.

Does not defend inflation. Worst inflation 8 years ago due to oil prices.

Now 4% going down to 3%.

Inflation started in U.S. due to Vietnam War, -- guns and butter. Exchange rate of dollars could no longer be sustained. This led us off Bretton Woods standard.

This left ^{all} governments off the discipline of ^{fixed} rates.

We printed money to pay for oil. Floating rates let us all spend and print.

He saw a need to get back to ^a monetary system ^{that goes} ~~went~~ back to fixed rates.

This led him and some others to EMS, and fixed rates.

He would never spend to keep fixed rates. He likes ^{his} dollar investments and their rates. He intervenes just to smooth out.

Told me "Mr Secy - I like your rates of interest, I invest my ^(sic) reserves in your bonds."

I told him - Mr Chancellor, don't get too used to those rates.

Americans have not been asked to intervene to change relationships but to smooth out.

The dollar has gone up in the last 3 weeks because of disappointment in getting U.S. real interest rates down.

Asks us to join them in intervening to smooth out rates, but not to change ratios.

We publish money supply on weekly basis. It's bad in its effect on random fluctuations in the dollar. It's destroying calculability of the dollar. *We should intervene more if we're going to publish weekly.*

Pres. Regan:

~~Our~~ ^{in the US} falling rates are no panacea. Others can have high rates due to domestic policies. *long after our rates are down*

We agree to article IV of IMF to intervene in disorderly markets, which was agreed to at luncheon by Fin Ministers. *and*

We cannot order Fed not to publish weekly figures on money, but we will relay your message. *never before in history.*

Then talked of unusual period of inflation currently. It wasn't so for years in the past.

Cautioned on ^{fixed} unemployment ^{fixes} such as CETA where out ^{spent annually} of \$3 byn only. \$500 myn went to training.

Mitterrand:

Nobody can accuse RR of going back on his principles.[!]
There had been long periods of inflation in his ~~day~~ ^{Roman times; also} as in

Roosevelt's.

We have ^{one} Fin Minsiters working on trade.

Will also have a study underway on intervention.

G-5 ^{will} meet in Toronto with Dir. of IMF to look at better
economic cooperation, ¹ as it says in communique

(1)

Summit - afternoon Session

P.M. Spadolini

3:00PM

discussed need for control of inflation and ^{how} to cure unemployment problem. High interest rates are a problem. Rates of fluctuations of dollar have affected Italian lira and hurt their economy. He admits Italy's problems of inflation also has problems on the left. Has tried to get an incomes policy, but Communist party had to be placated. Cooperation in monetary area is needed esp. as we are not now in a fixed exchange rate ^{Bretton Woods} mode as in Intervention by many countries is needed in such conditions. Should have agreement on reserves, capital flow, exchange rates as in EMS, keep inflation down. Need more productivity which has been ruined by inflation

P.M. Trudeau

3:15

He shares Helmut Schmidt's views Has two questions of ^{there is a} need to create an investment climate

- ① Question to all - Can we control inflation & recreate confidence in ^{the} future with acceptable rates of ^{our} employment.

We have controlled inflation - in U.S. down to 1% but at what price. In Germany same thing, & Britain, Canada, etc high rates of inflation, but as it comes down unemployment up. Only exception is Japan due to historical factors, and a society not similar to others.

Cannot get inflation down while putting up rate of unemployment. This comes as a trade off. Must be political will to share sacrifices. Can democratic societies do this or should we pursue cure for inflation and forget unemployment. Or can we tell people to reduce expectations, standards of living.

- ② Second question to Pres Reagan.

Real interest rates should & would fall when public opinion - econ. decision makers - feel deficits would come down. Worries about waiting for this. Can we wait many more months for this to happen?

They dont want to use the word "crisis" - "catastrophe" is better in communique. But we have a catastrophe, we cant wait to tell 3rd world no system is better.

Misery, collapse of business, he is worried about these things. How can ^{we} get over the next few months. Patience beyond next election is not something we can have. Congress must act sooner

Can we (7 Summiters) help R/R getting Congress to act - he doubts it - as a politician feels it would be counter productive.

But we should do something quickly. but how -

Pres Reagan

3:30

Answered immediately. Told of Pres. Roosevelt running for 3rd term on platform of getting unemployment down to 14%. It took WWII to cure Amer's unemployment.

We have tried ever since to cure

unemployment by Fed. Spending. It has never worked. Money supply also pushed.

Recession of 1980 stimulated the same way. Result double digit infl. + int rates of 21%.

We tried another method. Letting the Fed slow down GNP - eliminate a lot of Fed regulations. Cut the Fed's rate of spending in half.

Put in an incentive tax program. We had the highest % of out of state factories & tools.

Unemployment started in 1979 RR said he campaigned on this theme. It has increased somewhat, but not that much.

What brought on ^{the} recession? Fed pulled back too much too quickly. & brought on recession.

We are cutting back, but rates are still high.

Gave examples of how some banks loaned money to buy autos at a below market rate. Sales spurted by thousands.

Went over leading indicators, other signs of recovery.

Said Congress votes next week on budget.
 GM is rehiring a few. Auto workers
 are agreeing to give badges to keep plants
 open. Other industries are following.

Trudeau interrupted to ask if that
 it would hold true when sales go up?

Pres. Reagan said "yes" because they (negot)
 now know customers can stop buying.

Mitterand interrupted to say we
 have to get on. Pres of Japan made a few
 remarks; then turned to

Pres of C. C. - Dornhaus

3:45

Social consensus needs to be met
 People want less inflation, more
 employment, growth. We can also
 lessen our security problems if
 we can tick inflation. There are
 barriers. Need a durable decline in
 interest rates, ^{need to} get down volatility in
 exchange rates, + budget spending
 + deficits.

European Council made clear to
 Japan that it should pursue a trade
 + export policy that is fair to every
 body.

(6)

E.C.C. has responsibility to cure its problems as Japan does, but Japan should not cure its domestic problems at others expense. We should have more cooperation.

We need more stable currencies. Some currencies are too strong - in spite of underlying economic facts - Like draft of monetary statement.

Mrs. Thatcher.

4:05

Would like to answer Trudeau.

Unemployment and inflation are not trade offs. Keynes himself said deficits cannot help structural unemployment. Also changes in trading practices cause unemployment. Technology & productivity cannot be helped by higher inflation.

Inflation at its extreme is ruinous. If we persist in it, we ruin our currency. Countries around the table with low inflation also have low interest rates. Japan & Germany.

She agrees with R.R. to get down

deficits on a falling scale - years over years.

Should cut deficits by cutting spending, not raising taxes.

We politicians arouse expectations. This causes higher spending & thus higher deficits.

They try to smooth disordered markets in GB, but do not have enough money to change the pounds direction.

We should not use the IMF as a global aid agency.

We should not have a stop and go policy on beating the recession. We should help small business. We should watch our spending on consumption and social programmes.

Schmidt. - never got to speak.

Thatcher -

You can control inflation

Suzuki

4:15

We have kept inflation down due to Japanese people

Govt helped with public investment & spent a lot of money. Deficit was ^{of} 47 byn, Japan 12, USA 90. compared to size of budget. Yet the kept interest rates low. Intend to keep firm fiscal policies. Have been putting emphasis on domestic side. 5.2% real growth in gdp, 1% from exports, rest from domestic. Will speak later.

Schmidt.

Correlation between inflation, currency, & exchange rates.

Does not defend inflation, 40% inflation 8 yrs ago due to oil prices.

Now 4% going down to 3%

Inflation started in U.S. due to Vietnam War - guns & butter. Exchange rate of dollar could no longer be maintained. This led us off Bretton Woods standard.

This left govts off the discipline of rates. We printed money to pay for oil. Floating rates let us all spend & print.

(9)

To get back to monetary system went back to fixed rates. This led him & some others to EMS, & fixed rates.

He would never spend to keep fixed rates. He likes dollar investments & their rates. He intervenes just to smooth out.

Americans have not been asked to ~~do~~ intervene to change relationships but to smooth out

The dollar has gone up in the last 3 weeks because of his appointment in getting U.S. real int rates down.

Asks us to ~~fix~~ ^{fix in them in} intervene to smooth out rates, but not to change ratios.

We publish money supply on weekly basis. Its bad in its effect on random fluctuations in the dollar. Its destroying calculability of the dollar.

Pres. Reagan -

Our falling rates are no panacea
Others can have high rates due to domestic policies

We agree to article IV of IMF to intervene in disorderly markets which was agreed to at Luncheon by Fin. Ministers

We cannot order Fed ^{not} to publish weekly figs on money, but we will relay your message.

Then talked of unusual period of inflation currently. It was not so for years in the past.

Continued on unemployment fixes - such as CETA where out of \$3 bgn only \$500 mgn went to training

Mitterand

No body can accuse RR of going back on his principles.

There had been long periods of inflation in his try as in Rome.

We have Fin. Ministers working on Trade.

Will also have a study underway on intervention

G-5 meets in Toronto with Dir of IMF to look at better economic cooperation.

(1)

Summit - (Afternoon cont)

5:15

Italians protested paragraph # of the working paper on how to carry out.

EEC protested eliminating words in basic text concerning EC.

Colombo also protested para 3 of the Int'l Money Statement which refers to the 5 currencies which constitute the S. D. R.

Delors defended the statements but asked if we could put items back in.

Then much discussion of wording. Left in "particularly." Also questioned para 4 of working paper. as to why group of 5 to meet. Left up to Fin. ministers to settle at dinner.

Thorn -

We should send a signal on trade. GATT meeting crucial. Talked about Japanese im balance. Appreciate Japan's initiative

Trade tension between U.S & EC - in steel & agric. products. A number of protests in GATT. Also thinks this is

minimal. ^{real} Consequences to community are huge. They are helping unemployment battle. If not successful, will have 200,000 jobs. U.S. should realize this. If a limit on exports to U.S., may be a trade war. Are trying to find a temporary solution & draw attention of Pres to this.

A number of things can be said about subsidies to farmers. We both do it. Last year \$4 bgn in products. Is now \$1.5 bgn in 2 yrs. & all in GATT. Want to settle before GATT. Aid to get world is another subject of interest to members of GATT

Suzuki

Trade is a big issue because of world's problems. Friction comes from this. Should revitalize world's economies. Japan is trying to open up markets - in two different packages. Second part to leveling trade reduced tariffs come to zero

They import a lot of petroleum - 88% foreign so manufacturing sector is small.

Trade problems, such as tariffs can be

solved by individual ~~states~~ negotiations
 Maybe should be dealt with in GATT
 Investments, such as ins., stocks, banks
 etc should be brought up.

Again is also a problem.

Jamsdorf -

5 min

Talked of general principles of trade
 of Germany. First we welcome Japan
 new efforts - a step in the right direction
 New rulings by U.S (Commerce) would
 not be productive. Again talked of
 agreement on OECD.

Regu

5 min

Have points referred to in our prepared
 notes emphasis on investment &
 services.

France -

Talked of problems with Japan
 but says some are being resolved.

Says we should expand trade over
 next 10 years.

Wants to make sure current rules work.
 Products should be discussed as well as

(2)

services. Need a long ^{term perspective} ~~concerned~~
Also should discuss E-W trade
and N-S trade.

Credit conditions are sometimes burdensome
to France and they cannot be held to it

Adjourn.

Mitterand will meet with Press
now & all will meet with Press
tomorrow.

Gov. ministers meet with Fin Committee
to work over document for Shepas
Free Intl Trade & adopt text of
communiqué

Then discuss N-S.

Working luncheon

Brief after noon meeting for documents
& communiqué.

Free ^{the} intl big reception