

CHANCELLOR'S MEETING WITH THE SECRETARY OF THE US TREASURY

The Chancellor called on Secretary Regan at Chateau Montebello on Monday 20 July 1981 at 0800. Mr. Marc Leland was also present.

Regan said the US Administration had been much preoccupied with domestic economic policy during their first months in office; he had been unable to attend the Libreville meeting because of the need for urgent discussions in Washington of the Administration's tax and expenditure proposals. Action on the tax cut should be complete in two or three weeks, and the way would be open for him to devote more attention to international economic questions in the autumn. He would want to establish closer relations with Finance Minister colleagues, if only by telephone.

Approach to the developing countries

Regan noted that interest rates had been fully covered at the Finance Ministers' dinner on 19 July. (The Chancellor commented that it was as well to have confronted this issue at an early stage, and in an informal way, even if there had been rather too much concentration on the US situation). What could the US now do in other areas which would be helpful? The Chancellor said there could be no getting away from the urgent needs of the developing countries, and that it was important therefore to support the work of the existing International Financial Institutions (IFIs). However, this should be directed, so far as possible towards helping developing countries to help themselves - they should be ready to take advantage of inward investment and to develop export markets. Conditionality should be maintained for IMF lending, but this should be done in a way which took into account developing countries' sensitivities: at the 1980 Commonwealth Finance Ministers' meeting, criticism had focussed on the "hauteur" of the IFIs rather than on their policies.

Both Ministers recognised the Budget constraints affecting the aid-giving capacity of most potential donors other than OPEC. The UK continued to have a good record in terms of aid volume, support for the IFIs and concentration on the poorest countries;

/but the growth

but the growth in aid planned by the previous Government could not be sustained when the volume of public expenditure had already been cut 5 per cent below the previously planned level, with expenditure on housing programmed to fall by more than 50 per cent in real terms. Regan said that the US simply did not have the budgetary capacity to sustain any sort of Marshall Plan for the developing countries.

Global negotiations

Regan criticised the concept of global negotiations (GN); no clear account could be given of what they should cover and what might come out of them. But it seemed that the developing countries wanted to set up some new arrangements to supersede the existing IFIs, in which they would have the majority of the voting power but to which the US would still be expected to contribute 30 per cent of the costs. The countries which provided the money could not accept this. Some of the other industrial countries were wasting their time commending GN to the US; Trudeau would have been much better employed urging on President Reagan the need to provide funds for IDA VI - but he had not mentioned this. The Chancellor agreed generally with the US approach; GN would tend to institutionalise North/South conflict, and in so doing threaten the work and achievements of the existing IFIs.

Energy Affiliate

The Chancellor said he had been sceptical about the possibility of setting up a new institution in the IBRD group, which would add further to international bureaucracy. But a recent conversation with the Kuwait Minister of Finance (Hamad) had suggested that this might be a way of mobilising more OPEC money through an institution in which OPEC would have a much larger share of the vote than in the IBRD itself. Regan said he saw no sign that the Saudis wanted a separate Energy Affiliate; and the US preference remained for working through the IBRD, while encouraging more partnership with the private sector. The main obstacle to the development of new energy sources in the third world was these countries' fear of foreign exploitation; thus India had sought IBRD assistance towards development of her most promising oil fields, which could perfectly well have been left to the private sector, while permitting overseas investors to participate only in the less attractive locations.

tive locations. There were also signs that some of the Arabs were beginning to have reservations about helping developments which would in time erode their position in the world economy.

Half yearly meeting of the IFIs

The two Ministers agreed that it would be better to discontinue the spring meetings of the Interim and Development Committees, which served no real purpose. An alternative would be to insist that they took place in Washington (competition for the 1983 meeting might open the way for this to be suggested). Leland suggested that the developing countries should in some way be offered the costs to the IFIs of meeting outside Washington as a free gift.

Export Credit

The two Ministers agreed on the need to maintain the consensus; the signs of greater flexibility on the part of the new French Government were a welcome development. Leland asked how far it was realistic to expect the Japanese to stick to a consensus rate higher than current market rates for yen financing; would it not be sufficient if they charged  $\frac{1}{2}$  per cent over the equivalent market rate for officially provided export credit funds? The US agreed, however, that the Japanese should be pressed to allow banks and exporters in other countries to have access to yen financing on terms comparable with those available to Japanese exporters.

Trade with Japan

Regan commented on the problem posed by Japanese exports. The US customs had discovered documentary evidence that Mitsui had been dumping steel in the US on a large scale, while keeping false records in order to conceal this. Under such circumstances the system of trigger prices designed to prevent imports at prices below the benchmark set by Japanese production costs could not work satisfactorily. The case was likely to give rise to a good deal of difficulty in economic relations between the US and Japan. He also noted the problems caused by the "laser beam" technique whereby the Japanese concentrated very heavily on manufactured exports in narrow industrial sectors; they seemed to be planning now to seize a large share of the market in large computers by 1990, to the disadvantage of /IBM and other

IBM and other US producers. Action of this kind by the Japanese made it all the more difficult for other countries to resist protectionist pressures, as the US were very anxious to do - it was essential to maintain the advantages gained over 35 years through the open world trading system, despite present difficulties with unemployment.

Deregulation of US gas prices

The Chancellor endorsed the need to maintain a liberal regime for world trade. But the UK was bound to take notice of practices by other countries which seemed unfair. Access for US producers of man-made fibres to raw materials at prices well below market clearing levels were a case in point; US firms with the advantage of regulated gas prices were forcing the closure of modern plants in the UK - and particularly in Northern Ireland. Regan said that the US Administration wanted to make progress with deregulation in order to encourage exploration; there seemed to be a good deal of gas all down the Eastern seaboard and the Appalachian chain. But the speed with which they could move was limited by the need to avoid damage to confidence through an upturn in the CPI; the process should nevertheless be complete by 1983. The Chancellor undertook to arrange for Regan to be given further information clarifying the scale of the problems for UK industry represented by US gas prices.

JW

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