

THE WHITE HOUSE

WASHINGTON

MEMORANDUM OF CONVERSATION

SUBJECT: Opening Session
1992 Munich Economic Summit (U)

PARTICIPANTS: George Bush, President of the United States of America
 Robert Zoellick, Under Secretary of State for Economic and Agricultural Affairs
 Helmut Kohl, Chancellor of the Federal Republic of Germany
 Horst Köhler, State Secretary, Ministry of Finance
 Francois Mitterrand, President of the French Republic
 Ms. Anne Lauvergeon, Deputy Secretary General, Office of the President
 Brian Mulroney, Prime Minister of Canada
 Derek Burney, Ambassador to the United States
 Guiliano Amato, Prime Minister of the Italian Republic
 Umberto Vattani, Diplomatic Counsellor
 John Major, Prime Minister of the United Kingdom of Great Britain and Northern Ireland
 Mr. Andrew Turnbull, Deputy Secretary, Treasury
 Kiichi Miyazawa, Prime Minister of Japan
 Koichiro Matsuura, Deputy Minister for Economic Affairs, Ministry of Foreign Affairs
 Jacques Delors, President of the Commission of the European Communities
 Pascal Lamy, Chief of Staff to the President of the EC Commission

DATE, TIME Monday, July 6, 1992, 2:15 p.m.-5:50 p.m.
 AND PLACE: Residenz - Vierschimmelsaal
 Munich, Federal Republic of Germany

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Chancellor Kohl: (Official opening.) Welcome. This is a particular honor for me, since this is the first Summit since unification and it's in Germany. Thank you for your help with unification. (U)

We have problems here in Germany. People want to right in a year or two wrongs that took forty years to develop. There are dramatic changes in Europe. Many problems here and elsewhere create uncertainty, but also opportunity. We need a message of realistic optimism, of positive expectations. There are difficulties in the world, although the overall situation is positive. We need to tackle challenges jointly. This Summit will give an indication of whether we can do this. (Ø)

Economic considerations are in the forefront for all of us: jobs, economic uncertainties. There are regressive trends in a number of nations. There are signs of recovery, but it's not assured. We especially need to address unemployment, especially among young people. We need to strengthen our forces while still keeping stability. We need new dynamism. This will help Central & Eastern Europe. (Ø)

With regard to the Uruguay Round, all eyes are on us. Last year's formula won't do. We can't just say we desire success. We can't negotiate here, but I urge you to consider a formula that will lend to readiness after Munich to bring this to a conclusion. I know this will be hard on some nations. LDCs have vested hopes in the economy and on the environment, post-Rio. (Ø)

Yeltsin is coming, too. We need a predictable basis for helping. We need data from Yeltsin. We can't pour money down a pit. We need reasonable conditions. (Ø)

We'll discuss Central and Eastern Europe, too. We can't say we're only concerned with the FSU. All of these countries suffered under the USSR. (Ø)

We had working groups focused on drugs. Good work has been done. I will send letters of thanks to them. (U)

We need to be open in our conversation and not just read from prepared texts. (U)

We need to come to results in an amicable spirit. Expectations are high. So welcome. I'd like to ask for a first round of brief statements. (U)

President Mitterrand: We will explore these problems. Let me raise questions to get the conversation going. Let's not forget that the G-7 is an economic summit; that's what it's called. We have looked at other issues, like drugs. This is fine, but let's start with the economy. (Ø)

We see half of our economies in recovery after recession, e.g., the U.S., and slow growth in Japan and Germany. France may be

the most healthy, but we've only got 3 percent growth, so we won't flatter ourselves. The OECD says recovery is on the horizon, but they say it won't reduce unemployment. Unemployment is social/economic gangrene. It affects everything else. So we need to support recovery, and make inroads on unemployment. What instruments are available? Not many. First, we need signs of confidence in ourselves. We need to give the right impression. So we need a vigorous text. We need a drop in interest rates. I know Germany has difficulties, and is working hard on this. We're trying not to brag on the issue of interest rates, but I will mention it. (ϕ)

Then there is the failure of GATT. We could discuss this, but this isn't really the right time. Once we get agreement, the markets will respond. (ϕ)

So our first priority is to support recovery. (ϕ)

Our second priority is aid the former Soviet Union (FSU), especially Russia. There have been a lot of announcements made, but the results don't always follow. We need to know more about the IMF's talks. All of the FSU needs aid. (ϕ)

Third, there is the problem of nuclear power stations. When he visited Lithuania, our minister was discouraged. The risk of explosion is 100 percent in the next 15 years. We won't escape this. It's a lethal danger. It could permeate entire generations. And it would hurt the nuclear industry. France relies a lot on nuclear power, though there have been no accidents in France. We had problems with discharge and siting, but no longer. Chernobyl creates a psychosis. Twenty percent of France's electricity comes from nuclear power. What will happen? Experts need to submit reports. (ϕ)

Finally, there is the issue of development: This is an issue in Africa, Oceania, and some Latin American countries. Now we add Central and Eastern Europe. The more prosperous nations must make sacrifices. We need agreement or a way to do this. (ϕ)

Prime Minister Mulroney: The question is whether we'll influence the world or not. If the G-7 doesn't lead, who will? I know there are concerns about institutionalizing, and about media attention. But Canada favors a stronger G-7 role if we make our meetings less formal with less emphasis on communiquees. I would like to focus especially on political problems: (1) lasting, stronger economic growth, (2) the FSU, (3) Yugoslavia. There is tragedy and disgrace in Yugoslavia. In the FSU, future generations will judge. Change won't be done overnight. But there is fundamental reform going on. (ϕ)

I'd like to underline the nuclear safety initiative. We strongly support it. I got a letter from EBRD President Jacques Attali on the Bulgarian plant. If something happened, it wouldn't just be headlines; we'd be rushing for our planes. (ϕ)

On recovery, unemployment is the issue. It's probably highest in Canada. We'd be pleased with the U.S. level of 7.8 percent. We need more hopeful remedies. We can help each other with lower inflation, lower interest rates, and lower deficits. (Ø)

Another issue is collective security. Peacekeeping is the new challenge. I appreciated President Mitterrand's visit to Yugoslavia and the U.S support for our troops if they're under fire. The world is looking for leadership, whether the issue is Uruguay Round or Rio follow-up. (Ø)

Finally, the LDCs think we don't care. They think we're preoccupied with the FSU and Central and Eastern Europe. It would be unfortunate if we let that impression prevail. We should support Trinidad Terms for the poorest of the poor. (Ø)

Prime Minister Major: You suggested we move from scripts and be franker. I strongly agree. We have political leaders here with great authority. We can't solve all problems, but failure will hurt all of us. The G-7 is on trial. (Ø)

I see the economy not doing well. A cold look at the situation is as follows. The world economy is sluggish, unemployment is too high, interest rates are generally too high. Growth rates are lower than our capacity and lower than we need in order to sustain improvements in living standards (or people's expectations) and to match LDC expectations. The world also sees what we said last year -- that we expected recovery. I thought so, too -- that there would be recovery in the second half of 1991. But we were wrong, badly so. All our publics expected more. People are concerned. We did have signs of recovery last year, but it wasn't sustained. We've fought against inflation, but it's a hard won battle. (Ø)

A short-term boost will be of no use; it needs to be sustainable. I'm very concerned about flat growth or even a dip. We joined the Exchange Rate Mechanism to help in the medium term. Italy is doing the same. We need to keep wage demands restrained. It's not happening everywhere. We still have large, unsustainable fiscal deficits, especially in the UK. Interest costs are high and this eats savings from the private sector. For the UK, three-quarters of the deficit is cyclical; one-quarter isn't. We need to bring this back into line. The key point is the evil of unemployment. It's too high -- around 10 percent for many of us; this is an immense loss. So we need a message to sustain recovery and create jobs, without throwing away the gains made against inflation. The U.S. discount rate cut is helpful. I hope Japan will tell us of fiscal efforts. (Ø)

We need the right macro/micro and structural mix. One issue is worker training/retraining. Wages need to reflect local markets and skills. The EC has particular responsibility to make conditions flexible. All this sounds like an ideal solution. These goals are hard to reconcile. (Ø)

One point that would help is a successful Uruguay Round. I don't have a shred of doubt that it holds back confidence. We had language on this at Houston and London. A Uruguay Round agreement would produce big income gains, especially for the LDCs and former communist countries. Lack of a Uruguay Round agreement makes our aid discussion ludicrous. If we don't negotiate on this, we need at least to reinforce progress in the Round. (Ø)

There are other topics: Aid to the FSU. They face the risk of inflation and risks posed by their deficits. There doesn't seem to be an understanding that this could produce disaster, with fallout for everything. It raises the migration issue. We need to talk about their nuclear power plants. We live in the shadow of catastrophe. They don't have the money to deal with this problem or to provide for alternative power sources. (Ø)

There is also the issue of the poor nations. A GATT success would help them. We can't forget Somalia and the problem of drought in Southern Africa. There is no prospect of rain. There is probably going to be great loss of life, though this won't make the headlines. And we need to follow through on Rio. (Ø)

Finally, we'll meet in Japan in a year. We'll look back. We're at a pivotal time with a sluggish world economy, the problems of the FSU. One wish is that we'll look back not just at the wording of the Communique, but at the right strategic decisions. We need a clear look at these problems. (Ø)

Chancellor Kohl: Let's start in general terms, then look at specific issues in each nation. (U)

President Delors: I'd like to wait for the general economic discussion. (U)

Prime Minister Miyazawa: We need to sustain a policy of cooperation. For us to help Russia, they need to overcome their past legacy and act on the basis of law and justice. We want to reflect on the concerns of the Asia-Pacific. We also need to discuss political security. (Ø)

Prime Minister Amato: We attach great priority to recovery and growth. I would add a political reason for doing so. Opposition is growing in many nations that is different from in the past (in Italy, France, and, to some extent, Germany). This is not an issue of opposition parties, but of hostility to governing. Instability threatens democracy. It affects the U.S., too: this strange Texan. This new opposition is rising. (Ø)

We shouldn't just dwell on interest rates. The real problem is savings. We are generating savings, but need to get these savings put to work. We agree we need different words on the Uruguay Round. This is partly because we can't increase aid to the LDCs. We should be frank about it, and open our markets. We need to follow up on Rio. The G-7 needs a common position on follow-up. Nuclear safety is an important issue. It's also

important for its affect on our future use of nuclear energy. It affects public opinion. On aid to the FSU, I don't have much to add. (Ø)

We should spend time on Yugoslavia. We should also mention drugs and the related issue of crime. This is a sensitive issue in Italy. It's an international phenomenon. The murder of Judge Falcone was not decided in Italy. We need strong coordination on this issue. (Ø)

The President: I think most of the key issues were covered.

(1) We need to address ourselves to growth. I've listened to Prime Minister Amato on the subject of this strange political year. I've never seen anything like it. I hope the "strange Texan" he referred to was Perot! People are only saying, "throw the bums out." I'm determined to have us contribute to world growth. The U.S. deficit is outrageous; we've got to get it down. We had 2.7 percent growth in the first quarter. We were optimistic last year. Now most of us think we're moving, but too slowly. I salute the Italian government. I'm pleased with the cut in our discount rate. I'd be pleased to explain our plans on the deficit. (Ø)

(2) We need to discuss how to help Yeltsin. The IMF deal was good news. Yeltsin will say he only gets talk from us, not action. Yeltsin will say he's trying to make changes, and that the alternative is worse. (Ø)

(3) We'll talk about IFI help for Russia. We shouldn't be under fire for helping Russia vs. others; they've gone faster. But there are anxieties in the Ukraine. (Ø)

(4) The conclusion of the Uruguay Round is not only in our interest, but would be the best single thing for the LDCs. We're under fire on the spending front at home. We need to control the deficit. This puts us in conflict on aiding the LDCs. We have forgiven debt. We could have conflict here, but our position is based on our deficit. (Ø)

(5) Unemployment: Ours is up. I was surprised. The figure will be revised -- up or down. A lot of this is summer kids seeking jobs. I'm not excusing this, because it's a real blow. (Ø)

(6) We want to reuse the Stabilization Fund to help the Poles. I think there is a lot of agreement around the table. I may have differences with you, Helmut, but would like this mentioned (in the Communique). (Ø)

(7) Yugoslavia. I salute Francois. I'm interested in whatever else we can do, in suggestions. (Ø)

(8) I agree with Prime Minister Amato on improving savings. We need to get the deficit under control. The key is control of the growth of mandatory spending. (Ø)

(9) Uruguay Round: Let's get this finished. (Ø)

Chancellor Kohl: Let's focus purely on the economy now, then have coffee, and then look at LDCs. We'll have political questions at dinner. (U)

President Delors: Three elements justify our focus on the economy. First, disappointment. We all expected stronger recovery. We had weak investment. We need to discuss why. Second, all businessmen say they no longer expect anything from government. This is a cause of concern. Third, unemployment. (Ø)

I'm worried our Finance Ministers' cooperation is no longer as effective as it used to be. The Plaza and Louvre accords coped with financial challenges. Now we only see press references to different positions. (Ø)

Does a soft recovery reflect the lack of innovation, the end of a cycle? I don't think so. There is a lot going on, e.g., biotechnology. There is a low level of demand. Comecon trade is lacking so those countries look to us. A Uruguay Round success would help. Can we see more from Japan? It has a recovery program. For others, perhaps they rely too much on monetary policy and not enough on income/revenue controls. There is much to do in the budgetary field. Anti-inflationary policies are important, but inflation is very low compared to other periods of recovery. (Ø)

I see five areas: (1) Rebalancing: ask less of monetary policy; this could lead to lower interest rates. (2) Savings are insufficient. I see a trend toward higher long-term interest rates. The decline in public savings is a cause here. (3) Strengthen G-7 cooperation. Get the benefits of technological cooperation. (4) How to increase our association? Given limits, the best way is to open our markets in a Uruguay Round agreement, in the context of accords between the EC and Central & Eastern Europe and the FSU, and via debt relief for the LDCs. (5) Within the EC, we need to increase projects to increase competitiveness. The EC could help generate sustainable growth, both in the medium and longer term. (Ø)

Prime Minister Miyazawa: The Japanese economy is in bad shape now. We're in a bust period. The burn started at Plaza, in the days when Baker, Lawson, etc., struggled with the question of the yen's value. I stimulated Japan's economy in 1987. This had good effects on the economy, but two side effects: (1) Excessive yen in the market (due to public works spending, tax cuts, and government intervention) gave rise to a bubble. (2) Land prices skyrocketed, and so did shares. Speculators gained. The decline of land prices was healthy, but not the decline of stock prices. We had high private investment in this period. We're in a rut now, due to inadequate demand. We had excess revenue in the boom, but not now. How long will the bust last? We front-loaded 70 percent of our 1992 public works spending in April, but

this may not be enough. And we will have to make up (for this front loading) in early fall. We'll probably have extra stimulus like in 1987. I hope this will help with recovery. I hope we have a normal economy by the end of the year. (Ø)

We don't have large unemployment. We're almost fully employed. So we need higher investment. Both help me. I'll have to wait several months before I can say we're back to normal. An unfortunate trend is toward a higher trade surplus. It was over \$100 billion in 1991; I would expect a higher level in 1992, though it won't be as high as a percent of GNP: 2 percent vs. 4 percent (?). It embarrasses me. Germany needs to be our comrade. There is also the issue of capital increase for the World Bank. Any increase of exports to Japan is welcome. The UK and France are trying to encourage this. (Ø)

We've got a new five-year plan: for a better quality of life. It's true we export a lot and live in rabbit hutches. We'll shorten working hours, open more sewage plants, and make Japan into a country worth living in. We built a military 100 years ago at the expense of the people. We beat Russia. We lost WWII. But we're single-minded; after WWII, we shifted into exports. The habits of our bureaucracy haven't changed. We don't look to consumers or family life. We require a revolution in the state of mind of government officials. You can expect that in five years, we'll be a different country, though I hope we will still be competitive. We may not be able to have our cake and eat it, too. (Ø)

Prime Minister Amato: There is a difficulty with coordination at Summits. At first, we were effective because the subject was monetary policy. When we turned to structural [notetaker: did he mean fiscal?] policy, it was harder. The question is the medium point between monetary and structural policy: to increase savings and channel those savings into productive activity. We might work more together on this. Our greatest contribution would be to put our own economies in order. Public spending creates instability in Europe, higher interest rates, less help for LDCs. My government inherited a long period of pure monetary policy; only the Central Bank was acting. Industry was very dynamic and potentially competitive, but was quashed by the high lire rate to hold down inflation and high interest costs. We need to cut the cost of money through better incomes policy. We could start by cutting inflation and the deficit. Inflation was only just over 5 percent, but was 2 percent above the European average, and the economy pays for those costs. We need an incomes policy; this will be novel for Italy, because the private sector has low inflation, but public sector inflation is high. (Ø)

We need structural reforms. We need more savings, and to reach activities without intermediation that increase costs. This is true for social services and for industry. We're looking at our integrated pension system, trying to introduce elements of competition into our health system, and improving financial markets. Debt is more useful than venture capital now. We want

private capital in public investment. For example, the Eurotunnel -- which has had high costs and low return. (Ø)

Finally, will our political system manage to get through reforms of this type? When I left the Finance Ministry, I said we needed constitutional reform, less proportional voting, and to reduce the deficit. My successor came to the same conclusion. There is concern in Italy about the Parliament's ability to do this. Parliament is now looking to reorganize the constitution. This is unusual for the U.S. You examine the constitution all the time, but don't need to change it. We do. We need to move toward a majority system. There are two schools of thought: (1) The German model: a strong executive. (2) The French President. The question is whether we can carry out economic reforms at the same time. (Ø)

The President: On the U.S. economy, we were wrong last year. So the public thinks I'm disconnected. This makes me more cautious on predictions. Economists are second guessing again and believe our economy is less robust. I think we will grow in the second quarter, but less than in the first quarter, which was anemic. To give you an idea, 92 percent of T.V. news on the economy is negative; 80 percent on me is negative. Sixty percent of the American people thinks the economy is getting worse. (Ø)

Psychology affects the recovery; there are negative psychological effects (of this news coverage). Plus we're in a four year dance where the opponent has to say how bad it is. A recent survey shows that confidence is back a bit. We need to send a message that it's not business as usual. We need short, medium and long term actions. I salute Prime Minister Miyazawa's actions. I hope the trade deficit is cut soon; this would seen a good signal. (Ø)

The U.S. is trying to encourage growth through education, e.g., competitiveness in elementary and secondary education; R&D, where the government is spending \$90 billion/year, including for defense. This strategy has related elements. Basically, it's designed to open up society to competitiveness and free choice, while focusing government on helping people adapt -- for example through worker training. (Ø)

In education, we have six national goals: to implement America 2000; job training, youth apprenticeship. . . . On crime, we need to marry up our efforts to fight crime with our work in education and jobs. We're spending \$28.5 billion a year countering the drug problem. We're making some progress. We're working on deregulation, and getting some hell from the environmentalists. For example, we had the issue of the spotted owl vs. 30,000 jobs. This was not a pleasant fight. We have a good environmental record. Regulations are tough on small business. (Ø)

I'd like to return to make an appeal on the Uruguay Round. I think we're close. A Uruguay Round agreement would do more than any aid or spending. Maybe we could hammer this out here or later. It's worth a push. I'd be glad to answer questions. (Ø)

Chancellor Kohl: At dinner, we need to consider GATT again. (U)

We've highlighted unemployment in our Communique. Psychology is a problem in Germany, too. The situation is not typical. With unification, we added 17 million people. Their jobs were all tied to the old Warsaw Pact. We have great sympathy for Central and Eastern Europe and the FSU; we see a microcosm of their problems here in Germany. Unification helped stimulate activity in Europe. Now we have the collapse of the labor market in eastern Germany; trade with the East has collapsed. We have seen 1.8 percent growth in the first quarter for the western part of Germany; we may hit 2.0 percent this year. (Ø)

Our big domestic discussion is on spending and tax increases. Last week, our solidarity tax ran out. We need to push investment in the eastern laender and infrastructure spending. The problem now is putting money to good use; you need lead time. The privatization of public enterprises is two-thirds complete (8,000 of 12,000 firms). We're giving this a fresh boost, but it takes a year or more to change. We're happy to see foreign investors; France is in the lead. We can't mobilize more funds for Central and Eastern Europe and the FSU. Eighty-six billion dollars has been provided; Germany has provided 55 percent of this. We've submitted a new budget in 1993 and for the next three years which increases spending only 2.5 percent; we're giving this drastic treatment. There is no alternative; we need more savings. We will cope with the problems of the eastern laender. But we must not live beyond our means. The work week is too short. We need to cut government spending. We have explosive increases in health care costs. We can't just keep absorbing this. (Ø)

In sum, unification has led to big psychological problems. There have been no real sacrifices made in the western laender. We resolve to have a sound fiscal policy. We'll still be in an uproar, but the next important election is at the end of 1994. We expect to see results by then. In eastern Berlin, people want the same standard of living as in western Berlin. This is understandable, but not realistic. Those in the West say it took 40 years. So the people need patience. We need smaller steps than in the past, but we must be clear. (Ø)

President Mitterrand: By the way, I'd like to make a comment to Prime Minister Amato on the Channel Tunnel project. I think this is a great project. It's not working well, but involves no public funding at all. The clash is between the enterprises and the banks. It's not our fault. In France, public projects work well. Everyone assumes they don't. (I'm from a Socialist government.) (Ø)

France doesn't have a great deal to complain about. Our growth rate is the highest among the major partners. But public opinion doesn't show any progress. I inherited 140 percent inflation. Delors cut it to 10 percent. Now it's 3 percent. Our budget deficit is down. But if you ask people whether inflation has

come down since 1981, 63 percent will say no! I'm reassured that President Bush says he's a victim of the same phenomenon. This is important: skepticism must have been the reason behind it. Propaganda alone won't explain it. Maybe it's because these problems are everywhere. How does the G-7 convince the public, restore faith in ourselves, and end self-doubt? (Ø)

Our budget deficit is down to 1.7 percent. Turning to industry, we had a great deficit in the past, but our firms are in the black now for the first time since 1974. Annual production is up; market share is up. We have a healthy balance of payments. But unemployment is increasing. (Ø)

I'm not blowing my trumpet, but am pointing to psychological causes: failure is a disaster and success never gets recognized. We're doubting ourselves. We need to treat this psychological disease. The G-7 must be useful, whether through GATT or whatever. (Ø)

On the Uruguay Round, CAP allows some rapprochement. The U.S. and the EC should make some sacrifices. What can the U.S. do? You ask for 24 percent (cuts in export subsidies). What do we get in return? It's not that I'm not willing. I just can't accept the EC suffering from the economic power of our best friend. Is the U.S. a little deaf? What concessions are being made by U.S. producers? The farm problem is not the only one; there is also services. (Ø)

We're waiting for ideas to demonstrate to world opinion that we're on the winning side. (Ø)

Prime Minister Mulroney: A Canadian of German extraction named Krauthammer lives in Washington. He says the problems of modern society are so complex that if a leader leaves office popular, he has no greatness. This means absolute failures. . . . We all live with accumulated problems. Presidents Bush and Mitterrand pointed to the problem of the message. I saw a New York Times survey which reported that leading Presidential candidates were given 7.3 seconds to talk, while reporters get two and one-half minutes to criticize. This shows the serious challenges we face. (Ø)

I'll use my personal experience, since I'm the most unpopular leader here. We're coming out of two years of recession. We've had a proliferation of parties. We're full of one-trick ponies. Like Perot: When asked about the Rio UNCED Conference, he said he'd never heard of it. France has this, too: Le Pen. In Canada, some of our problems are self-inflicted. We've increased spending 14 percent a year for 10 years (?). Our deficit has risen to \$40 billion/year. This is equivalent to a \$400 billion U.S. deficit. 35 cents of every revenue dollar goes for debt servicing. Every Canadian gets \$1.33 in services for \$1 paid in taxes. Our national debt has doubled twice. (Ø)

What are the lessons? You can't spend irresponsibly for 15 years and say it didn't happen. You can't ignore the issue of

productivity. We cut spending. We cut the deficit in half as a percent of GNP. We reduced services -- to 98 cents per person. We negotiated a free trade agreement. Despite the recession, trade was up \$30 billion a year, creating 30,000 jobs in both our countries. We introduced the GST (goods and services tax). We've privatized. We've worked on wage settlements for the public sector. We've worked on NAFTA and GATT. Inflation is now 1.3 percent. Growth next year will be 5-6 percent. Interest rates are down. But I'm still unpopular because they want to live in a dream world. Prime Minister Major showed how to succeed. Have a serious plan, stick to it, and take it to the people. (Ø)

President Bush noted problems. Can things turn around because the people believe in third party endorsement? They'll believe Mitterrand about Mulroneu. The G-7 should say good things about the U.S.; it will help. (Ø)

It will be good to work on GATT tonight. This group can say the economy is robust and the recovery will be sustained. The American public will believe us. The countries represented around this table have 22 million unemployed. We need to do better. The G-7 as a third party endorses growth. We need to exude optimism, confidence. We can overcome this. President Bush is the one who needs to fight off the crazies now; others will need to do this later. We need the G-7 to endorse sound policies and beat the press. (Ø)

President Mitterrand: I'd like to add a word. We have to pay attention to this: In most social crises, the poor rise up against the privileged. But this is a disease of affluent nations. The wealthy complain more. This is a psychological issue and a moral one, too. We need men and women to believe that society gives them something to believe in. Our societies are sick because of affluence. France has one of the best standards of living, but the most protests. Perhaps it's something in human nature. Is affluence destructive? If we just juggle the statistics, we won't answer the questions put by Prime Minister Mulroneu. Productiveness doesn't give happiness. (Ø)

Prime Minister Major: This is a debate on the philosophy of unpopularity. It relates to the adversarial nature of debate. In the House of Commons, I get questions; I'm responsible for all the problems. We have the other side of the 1980s boom in the UK. Core inflation is falling and interest rates are down. But this hasn't inspired confidence and boosted spending. Now people are saving too much to get us out of recession. (Ø)

Recession is harsh. Unemployment is high. Our fiscal deficit is up. Long-term unemployment is down. We had a recession of 2 percent last year. The consistent factor that hurts confidence is the value of property and equity. Houses are worth less. I think that until housing prices go up, people won't spend. Also the nature of unemployment is different. Now it's white collar people with large houses and mortgages who are unemployed.

Usually, these people spend us out of recessions. The problem is no confidence; this is the biggest factor. (Ø)

There's been a lot of discussion of the Uruguay Round. I find that encouraging. I think the problems are political now. We should give the lead here. I hope we can make progress over dinner. The EC's CAP settlement should help us reach a solution. I see only four points of principal concern: (1) The level of internal supports for farmers. It shouldn't be a problem to cut this 20 percent in the aggregate. (2) Peace: I know we can do this. (3) Rebalancing: It's clear to me there can be a bargain. (4) Export volume: There are different options -- 6-8 years, aggregation, different base years. I know that 24 percent (cut in exports) is crucial. A Uruguay Round resolution could do as much as anything to regenerate growth. Also, with regard to Delors' point on opening markets to East-Central Europe, let's have the (association agreements?) come into effect before all 12 ratify. (Ø)

BREAK

Chancellor Kohl: Development aid and debt strategies: A lot of positive work is going on here. On Rio, we need to implement agreed actions as soon as possible through national policies. We need to consider the issue of development carefully given the lack of resources. On debt, some have mentioned the poorer LMICs. . . . (Ø)

Prime Minister Amato: We need to distinguish between types of aid. We need to provide resources to the poorest, not pure gifts or grants to the lower middle income countries (LMICs). (Ø)

Chancellor Kohl: Do you think the Sherpas can agree? (Ø)

Prime Minister Amato: I think so. (Ø)

Prime Minister Major: The poorest have no chance. We ought to help the LMICs, too. (Ø)

Chancellor Kohl: Agreed? (Ø)

Prime Minister Miyazawa: I'm concerned about the moral hazard. What are our criteria? There are different problems in the Eastern Hemisphere. (Ø)

The President: This raises a good question. We've tried to do a lot on the bilateral front. We've provided \$11 billion in debt relief, including \$3 billion for Latin America, Africa, and Bangladesh. But we can't do this in the Paris Club unless there are rescheduling options, as France has done. We have a budget deficit problem. We can't do more bilaterally. I can't answer questions like China. (Ø)

Prime Minister Major: We can try to answer on India. Sub-Saharan Africa can't pay. India can and does. India also gets a

lot of attention. It's in their interest to pay. Sub-Saharan Africa cannot pay their stock of debt. (Ø)

Chancellor Kohl: There is a big difference between the PRC, India and Sub-Saharan Africa. Can we ask Sherpas to agree on a text to endorse? (Ø)

Prime Minister Amato: Sub-Saharan Africa? (Ø)

Prime Minister Miyazawa: (Expresses reservations.) (Ø)

President Mitterrand: Let's not be too logical. We should work on case-by-case measures. (He mentions Poland and Egypt.) We've written off debt to 30 nations; they wouldn't pay anyway. I hope the text will come to a good result. We need to have a result. (Ø)

Prime Minister Mulroney: President Mitterrand said we started with the French speaking and then the Commonwealth countries, and then wrote off the debt of 40 countries in 1987 to give them a breathing space. We were embarrassed by Brundtland when she said Norway had reached the ODA 0.7 percent target. We're still far from it. Prime Minister Major got through Trinidad terms. (Ø)

Chancellor Kohl: We have a clear mandate to the Sherpas. We should say what we can on aid. For LMICs, sub-Saharan Africa, we agree on that. (Not clear what Kohl was referring to.) On Rio, we listened (to the LDCs for two and a half days). We also talked to the Baltics. Their need is very great. (Ø)

-- End of Meeting --