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Nigel Wicks Esq  
PPS  
10 Downing Street

14 June 1988

*Dear Nigel,*

**SUMMIT: SPEAKING NOTES FOR USE IN PLENARY**

I attach some speaking notes for the PM's use in the Plenary session on the world economy. They incorporate comments from the Chancellor and Sir Geoffrey Littler.

I have included a substantial section on the debt problems of the poorest countries, but no more than an introductory paragraph on trade and agriculture - on the assumption that the material in your speaking notes for the opening session already cover the ground and can be used in either session.

I am copying this letter and attachment to Geoffrey Littler, Rodric Braithwaite and Tom Richardson.

*Yours*

*Heur*

H P EVANS

DRAFT SPEAKING NOTE ON WORLD ECONOMY FOR THE PRIME MINISTER FOR  
USE AT PLENARY SESSION ON THE WORLD ECONOMY

Recent developments

When we met in Venice a year ago, we looked forward to steady but unspectacular progress in the world economy: keeping inflation under control, of course; the likelihood of continued growth in output and some limited improvement in the payments imbalances.

2. Much to be pleased with in better than expected performance of world economy over past year. Growth averaged 3 per cent on average in our economies, and in some, including the United Kingdom, well above 3 per cent. This year, despite the worldwide fall in stock markets last October, we expect another year of substantial growth. Indeed, the period of more rapid growth - at an annual rate of at least 4 per cent - that began last autumn has continued into the first part of this year. Furthermore inflation remains low.

3. We are now seeing, as we could not see at this time last year, firm evidence that fiscal and trade imbalances in the world economy are being reduced: the US fiscal deficit fell by more than a quarter in the latest year, and the large trade deficit of the US and the large surpluses of Japan and Germany are now falling.

4. Substantial risks and uncertainties remain: but our achievements so far give us confidence to persevere. We know what



needs to be done. In the United States, the economic priorities are to put in place a firm programme over the medium term for reducing the fiscal deficit and to ensure that monetary policy is directed against inflation. In Japan and Germany, a further shift away from excessive dependence on exporting; and in all our countries, further structural reforms, encouraging markets to work better and more freely. We must persevere with these policies if we are to reduce further the internal and external imbalances that remain.

5. We must never take for granted our success in controlling inflation. We have seen recently sharp rises in some commodity prices, although from very low levels; and there are other signs, including the fast growth of output in recent months, that suggest that a resurgence of world inflation is more of a danger than world recession. We have the means at hand to ensure that inflation does not become a problem again: let us resolve to use them promptly as necessary.

#### A longer perspective

6. This year's summit finds the world economy far better placed than in 1981 when we began this round of summits. Inflation is down from 10 per cent to 3 per cent; and we are now in the sixth year of expansion with growth averaging a good 3 per cent a year.

7. An important reason for the better performance of recent years has been a switch in the emphasis of economic policy, away from the interventionism of the 1970s. Our approach has two

aspects. The first is to direct macroeconomic policy to the control of inflation. The second is to use a wide range of microeconomic measures to open markets and to tackle the structural rigidities in our economies which impede the proper functioning of markets and thus frustrate healthy growth and the creation of more jobs.

8. The essential point is that the performance of our economies in the medium term depends mainly on the supply side of the economy: on efficient, open, markets, on competition and on the spirit of enterprise. Let us resolve to push ahead with policies to strengthen our economies in these ways.

#### Trade and agriculture

9. Opening up markets is a crucial element in our structural reforms: we have seen in recent years the gradual accumulation of barriers, not mainly in the form of tariffs but in other less transparent ways. The effect has been to inhibit the growth of trade and to reduce the amount of competition. We look to the GATT round to extend the open world trading system by getting agreement on lower trade barriers of all kinds.

[Main section on trade]

[Section on agriculture]



## International debt

10. Reform of world agriculture would also benefit many developing countries, including those with large debts.

11. At Venice last year, we recognised that the problems of the poorest countries, especially those in Sub-Saharan Africa, needed special treatment. Their grinding poverty and unmanageable debt burdens put a particular responsibility on us because the majority of the debt is owed to the public sector - either to national governments or to the international financial institutions.

12. Over the past year we have seen the establishment of a large, highly concessional facility at the IMF (the Enhanced Structural Adjustment Facility). That was a strong and prompt response, for which the Managing Director of the IMF can take much of the credit.

13. But we have still to reach to agreement on a more concessional approach to official (Paris Club) debts, as the UK proposed over a year ago. This would apply to the poorest countries mainly in Africa with serious debt problems, and which followed adjustment programmes agreed with the Fund or World Bank. We all know that concessions are needed if the debt is not to spiral into the stratosphere.

14. I have been greatly encouraged in recent weeks by the willingness of a number of major creditor countries to join in the search for concessional solutions. Let me urge as many as

possible to do what we have advocated: cut interest rates on official debt, on the conditions we have laid down. For those genuinely unable to do this, then some other visible and additional move is vital: extending the rescheduling period to 25 or 30 years and accepting the seniority of the claims of those who have given concessional terms is one possibility. Writing off part of the debt and rescheduling the remainder over a shorter term is another option. The important thing is that all countries must take broadly equivalent action on debt that will bring a significant reduction in the debt servicing burden over and above what has already been done.

15. I referred earlier to the favourable developments in the world economy. Developing countries are sharing in these benefits: with our output and trade expanding at a substantial rate, we are providing larger markets for exports from developing countries. Moreover, the rise in many commodity prices over the last eighteen months is adding to export earnings and so enabling imports and living standards to rise.

[Peroration]

HM Treasury  
14 June 1988





Nigel

10 DOWNING STREET  
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*From the Private Secretary*

14 June 1988

*Dear Lynn,*

TORONTO ECONOMIC SUMMIT

Following Alex Allan's letter to me of today, I attach a further version of the Prime Minister's note for the opening session which takes account of the points that Alex made.

I am copying this letter to Alex Allan (HM Treasury) and Trevor Woolley (Cabinet Office).

*Nigel Wicks*

(N. L. WICKS)

Lyn Parker, Esq.,  
Foreign and Commonwealth Office.

DRAFT SPEAKING NOTE FOR THE PRIME MINISTER TO USE AT THE  
OPENING SESSION OF THE ECONOMIC SUMMIT

1. Any initial courtesies which are necessary  
e.g. welcoming Mr. De Mita and Mr. Takeshita  
congratulating President Mitterrand  
saying farewell to President Reagan  
thanking Mr. Mulroney for the Summit  
arrangements, etc.
  
2. The annual Economic Summits are a time for sharing, quite informally, experience on the economic situation and a time for resolution on the common economic action which we should follow in the years ahead. The Summit forum alone can see every dimension of the global issues before us. Summits have provided, in the past, opportunities for leaders to take charge of issues from the bureaucrats and give them a political push which can only come from the very top. This Summit should be no exception.

[Paragraphs 3-10 can be omitted in the interests of brevity.]

- [3. This is the last of this series of Summits which President Mitterrand initiated in Versailles in 1982. President Mitterrand, President Reagan and the President of the European Commission (who was present as the French



Minister of Finance) will remember the problems which faced us at that Summit.

(i) World recession in the period 1980-82: output growth averaged under 1 per cent over these three years, and output actually fell in 1982.

(ii) Inflation in the industrialised countries averaged about 10 per cent in 1981 and 1982.

(iii) Investment in industrial countries had fallen by 2½ per cent a year over the period 1980-82.

4. The problems of the world economy are not all solved. Far from it. But there has been an enormous improvement in the world economic situation in the last six or seven years. In particular:

(i) growth has averaged a good 3 per cent a year since 1982;

(ii) inflation has come down to and stayed at around 3 per cent;

(iii) Investment has risen continuously since 1982 in the industrial countries at an average of 4½ per cent a year.

(iv) in many countries, unemployment is falling.

But there remain serious problems: the fiscal deficit in the United States, and trade imbalances there and in Japan and Germany; the protectionist threat; high unemployment, especially in Europe; the massive scale of agricultural protection and support; and the serious position in many developing countries, especially in Africa.

5. That improvement has not come about by accident. The seventies were a decade of financial irresponsibility, economic mis-management and economic opportunity foregone. But in the Eighties, the Summit countries have lead the way in implementing a change in the approach to economic policy of historic proportions. Successive Summit declarations bear witness to that change. And many other countries are now following our lead. International cooperation fell apart in the Seventies and has been gradually rebuilt during the current series of summits. Priority has been given to inflation and to prudent fiscal and monetary policies. But the real innovation has been the emphasis on "structural reform", tax reform, abolishing controls, introducing competition, privatisation and the need for freer world trade especially in agriculture, following our discussion at the Tokyo Summit 1986.
6. The recent record of economic history shows the rightness of these policies. The world economy could not have



withstood so well the shock of last Autumn's fall in stock prices unless our policies had built sound foundations.

7. I suggest that our task at this Summit is to consider how to carry these policies through the rest of the Eighties and into the Nineties, so that we can carry on the progress already made. That will require,

first, continuing action to reduce trade and budgetary imbalances;

second, progress with our national structural reform programmes;

third, a successful conclusion to the Uruguay Round; and as part of that,

fourth, continuing action to - and here I use the words in the Economic Declaration issued in Venice in 1987 - "... allow market signals to influence ... agricultural production ...",

fifth, supporting the developing countries in their efforts of economic reform; and I want to say something on the various debt initiatives in a moment.

#### The Imbalances

8. First on the imbalances. There has certainly been some progress. The US budget deficit is now on the way down, and the trade imbalances are at last beginning to decline. But there is still a long way to go, and it

will help confidence if we acknowledge the need for further and sustained action to get the imbalances under control. I shall want to say more about that in our session tomorrow.

#### Structural Reform

9. It is vital that the surplus countries too play a full part in resolving the imbalances problem. But it is through structural reforms to open their markets and invigorate their economic performance - not through fiscal stimulus - that they must make their contribution.
  
10. Education and training is a particular element of structural reform that I want to stress. We face a decade of technological change, fewer young people coming into the workforce, and the need for training and retraining, not just for the young people but right through the working life, so that people can be re-equipped with new skills. I look forward to discussing this important issue at our informal session tomorrow.]

#### Trade and agriculture

11. Agriculture and trade are, in my view, priority topics this Summit. Certainly, Summits are not negotiating bodies. We cannot get into the details which are under discussion in Geneva. But we must give an impetus to



those discussions and map out some common directions so as to keep up the momentum.

### Trade

12. To take trade first: too often in the last few years there have been threats of trade wars. Protectionism has inched forward. And protectionism reduces growth in our countries, puts up inflation in the short term, increases unemployment in the long term and damages the developing countries. The GATT Round provides an opportunity to turn back protectionism to the benefit of both our own economies and to the developing countries. We must seize that opportunity and maintain and extend the open world trading system by multilateral reduction of trade barriers.
  
13. I believe that the Mid Term Meeting (MTM), to be held in Montreal in December, offers a valuable opportunity to demonstrate that real progress can be made in all areas of the Uruguay Round. This progress should cover the areas to which we gave special emphasis at our previous meeting at the Tokyo summit, namely trade in services, intellectual property rights and foreign direct investment. A significant step towards the Round's successful conclusion would be the establishment at an early date of an agreed negotiating framework. I believe, too, that we should use to the fullest extent possible at the mid term meeting the provision in the

Punta Del Este Declaration which permits the implementation of agreements reached at an early stage in the negotiations. We must not hold up action on any issue until agreement is reached on all issues. For example, tropical products are a high priority for the developing countries for whom there is unlikely to be much else on the table at Montreal. If we can by then agree on other issues too, so much the better. Above all the strengthening of GATT itself must be a high priority. We should work for the earliest possible agreement on ways of reinforcing the GATT process: through greater involvement of political Ministers; through intensification of the surveillance of trade policies; and through greater effectiveness of dispute settlement procedures so that disagreements can be resolved speedily, conclusively and fairly.

14. I suggest that these are the objectives which Summit countries should set themselves in making their contributions to the preparation for the Montreal meeting.

#### Agriculture

15. The Venice and Tokyo Summits made reform of agriculture policy a priority for our Governments. Present agricultural policies distort national economies by putting unfair burdens on the consumer.



16. In February the European Community took some important first steps to reform agricultural policy. We now have:

- a legally binding ceiling which will cut the growth of agricultural spending to less than 2 per cent a year in real terms, from around 10 per cent in recent years,
- and automatic stabilisers for each individual commodity which will cut support levels if production exceeds pre-set levels, and thus discourage surplus production.

If production continues on current trends, the stabilisers will save some \$4 billion in the three years 1988/90. In cereals alone, if production continues to rise, support levels will fall by 15 per cent over the next four years. For oilseeds, where we already have a stabiliser in place, the new measures should save a further \$1 billion by 1990.

17. That agreement was a real achievement for the Community and for the world.

No-one should belittle what the Community has achieved. But far more needs to be done by all of us to achieve our agreed [i.e. in the OECD Communique] long term objective of reducing agricultural support and protection, while maintaining, at the same time, a dynamic and viable

agricultural sector.

18. This Summit should make clear that the Montreal Mid-Term Review should give a good shove to the negotiating process. So far there has been a dialogue of the deaf between our officials. I believe it is for us here to re-inject the sense of political urgency which we so successfully invoked at our Summits in Tokyo and Venice. The aims are clear:-

- first, as our long term objective, to work for liberalisation of world agricultural markets, through major reductions in overall support and protection;
- second, to determine a framework for the GATT negotiations, that focuses specifically on an overall measure of support [such as the producer subsidy equivalent];
- third, to make operational the standstill commitments that were agreed at Punta Del Este;
- fourth, a multilateral commitment to specific early action that not only prevents the situation getting worse, but also makes real headway towards our long term objectives.

We should not try to negotiate the details now. But we



should commit ourselves, here and now, to make concrete progress towards agreement on these matters at the Mid-Term Meeting in Montreal in December.

19. Finally, a word on the debt of the poorest countries. I have been greatly encouraged in recent weeks by the willingness of the United States and France, in particular, to join in the search for solutions which will reduce the debt burden faced by these countries. In Venice last year, we recognised that their problems were "uniquely difficult" and needed "special treatment". And we agreed that consideration should be given to interest rate reductions for those countries which were following sensible adjustment policies. Let me again urge as many as possible to accept interest rate reductions, as the UK has been advocating for some time. For those unable to do this, then some other visible and additional move is vital: extending the rescheduling period to 25 or 30 years is one possibility. The important point is that all countries must take action that will bring a significant reduction in the interest burden over and above what has already been done. It is vital we now reach a conclusion on this issue.
20. There are many other issues we need to consider at the Summit - the Newly Industrialising Economies is an obvious example. But I will reserve my comments on this subject until later.

21. Mr. Chairman, this Summit gives us an opportunity to reinforce the close international cooperation of recent years and so to shape economic history for the rest of the century. Let us seize it.