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10 DOWNING STREET

Prime Minister

As slightly amended sub

Toronto Star

I attach ~~the~~ ^{my} answers

for your written

interview with the

Toronto Star on

the Summit.

I hope you will

omit the reference to the

Levitt Agreement on question

2! Agree?

CBP 3/6



*File 8th
Press*

10 DOWNING STREET
LONDON SW1A 2AA

*Simon
Dennis says
can you handle
12/2*

From the Private Secretary

6 June 1988

**TORONTO ECONOMIC SUMMIT:
PRIME MINISTER'S INTERVIEW WITH
THE TORONTO STAR**

I enclose the Prime Minister's answers to written questions put to her by the Toronto Star on the forthcoming Economic Summit.

I am copying this letter and enclosure to Alex Allan (HM Treasury), Stephen Ratcliffe (Department of Trade and Industry) and Myles Wickstead (Overseas Development Administration).

(C. D. POWELL)

A. C. Galsworthy, Esq., C.M.G.,
Foreign and Commonwealth Office.

File 8K
c/c

MR. INGHAM

TORONTO ECONOMIC SUMMIT: PRIME MINISTER'S
INTERVIEW WITH THE TORONTO STAR

I attach answers to the written questions put to the Prime Minister by the Toronto Star in a form which the Prime Minister has approved. I should be grateful if you could now give them to the Star. I am also arranging to copy them to the Departments principally concerned.

(C. D. POWELL)

6 June 1988

TORONTO ECONOMIC SUMMIT

QUESTIONS FOR THE PRIME MINISTER FROM THE TORONTO STAR

Q1 If among the many current issues the 'summit' was able to achieve significant progress on just one, which subject would you select for priority attention, and why?

A1 If I had to choose just one area in which to register significant progress at Toronto, I would go for reform of agriculture. It is vitally important that all developed countries - and not just the Summit seven - should reduce agricultural support and protection. The agricultural policies of the industrialised countries penalise tax payers and consumers and damage the long term interests of developing countries. We are all responsible and we all need to take action. We in the European Community have taken some, hard won steps to reduce production and expenditure. But we all need to do more. And I think we should say so in Toronto.

Q2 The annual 'summit' is a technique for improving policy co-ordination among the major Western economic powers. Given the strains in the international economy -- volatility in exchange rates; trade protectionism, etc -- are new policy co-ordination techniques needed, if so of what kind? In particular, are new co-ordination techniques needed to integrate the actions of the principal Western partners, the US, Japan, Western Europe.

A2 I believe that the Annual Summits have served the world well. Look at what we have achieved since the beginning of the decade. In 1981 inflation in the major countries averaged 10%. It is now 3%. Since the recovery from 1981-82 recession economic growth has averaged more than 3% a year. Successive summits have endorsed the strategy that has produced this improvement in performance: macroeconomic policies to control inflation and microeconomic or structural reforms to strengthen the supply side of our economies.

Of course there is no room for complacency. We must continue to co-operate closely with the aim of sustaining steady, non-inflationary growth across the world and bringing about a better balance to the pattern of world trade. There has been progress has been made in reducing the current account imbalances of the three largest economies. But these efforts need to be maintained.

So the short answer to your question is; No. I don't think we need new co-ordination techniques. We have evolved flexible instruments. The important thing is to continue to make good use of them.

Q3 Potential and actual trade protectionism may be the most acute of contemporary economic problems. Does the summit represent a 'last chance' for giving a major impetus to global trade liberalisation negotiations under GATT; are major changes in the GATT negotiation procedures and schedule necessary; in the absence of success at the GATT talks, is there a major danger of the world dividing into regional trading blocs?

A3 I think it is going too far to say that the Summit is the "last chance" to give an impetus to the negotiations in the GATT. But it is certainly a very important opportunity to summon up the political will to make them succeed. At previous Summits, we have renewed our commitment to free trade and to tackling excessive agricultural support and protection. What matters in Toronto is that Summit leaders give firm political backing to the GATT negotiations so that the GATT Mid Term Meeting in Montreal in December is a success.

One of the key elements in the negotiations, and an area where substantial progress should be possible by the time of the Mid Term Meeting, is the reform of GATT procedures. The Summit can help to strengthen international support for GATT both by stressing the need for better observance of GATT disciplines and by committing ourselves to improving such things as disputes procedures. In other words we don't just need to update the rules; we also need to ensure that countries abide by them.

If the GATT negotiations fail we shall all suffer. Failure will increase the risk of bilateral arrangements between regional trading blocks. And there could be the quickest way to a recession - the very opposite of what we are trying to achieve in GATT. This would lead to more disputes, not less; spiralling subsidies; and more trade wars. I don't believe it will happen but we must make sure it doesn't.

Q4 In several of the nations attending the summit, unemployment remains a major social problem. Are new job-creating initiatives needed, and if so what kind, or, instead, should the problem be left to the operation of the market-place?

A4 All of us can do a lot at the macroeconomic level to reduce unemployment - by promoting efficiency and flexibility in labour markets, increasing labour mobility and improving incentives to work. Vocational training can help to reduce mismatches between the skills required by firms and those available.

But what governments cannot do is achieve any lasting reduction in unemployment simply by artificially expanding the economy. History shows that macroeconomic policies of this kind only cause inflation which ultimately destroys jobs.

Q5 International indebtedness remains dangerously high, and as one consequence, global trade flows have been reduced. What new actions, if any, are needed to (a) relieve the trade-inhibiting effects of global indebtedness, and (b) to prevent defaults which could threaten international monetary stability?

A5 World trade has grown steadily since the recession of the early 1980s. But the share enjoyed by debtor countries has fallen because they have had to cut their imports. One of the objectives of the debt strategy is to strengthen world trade. Industrialised countries have pledged themselves to sustain steady growth in their economies, to reject protectionism, and to open up their markets further, in the context of the GATT negotiations. Debtor countries are pursuing adjustment policies to increase exports and strengthen their balance of payments.

I remain concerned about the debt problem. But the current strategy, of considering each case on its merits, insisting that debtor countries greatly improve the management of their economy in order to qualify for further finance from creditors, is still right. We must give special attention to the poorest debtors of sub-Saharan Africa. Under an initiative by our Chancellor Nigel Lawson, we have proposed the reduction of interest rates on their rescheduled official debt. We are also giving considerable support to IMF and World Bank initiatives to help these countries. The middle-income debtor countries are in a different position. They owe most of their debt to commercial banks, and should continue to negotiate solutions directly with them. I am sure there is scope here for new market-related approaches.

Q6 Given the scope of current international problems, and the shifts in the relative power of the nations involved, is the time right for the summit to set up some high-level commission to recommend changes in collective policies and in collective policy co-ordination.

A6 I have never believed that commissions, however gilt-edged, can resolve problems. It is up to our governments to work together and to give the right political leadership. In any case, we already have Economic Summits and meetings of the OECD, IMF and Group of Seven, where countries can discuss world economic problems and reach agreement on how these problems should be tackled. So I see no case for new machinery.

Q7 East-West trade presents a potential opportunity for global trade expansion. Given the current easing of East-West tensions, should action be taken to bring Soviet bloc nations into the international order, by membership in organisations such as GATT, IMF, and through new relations between the EC and COMECON?

A7 I welcome the economic reforms taking place in the Soviet Union and Eastern Europe, and we are well aware of the opportunities for increased trade that will flow from them.

We shall try to make the most of them, both bilaterally and through the EC. We also very much welcome COMECON's decision to formalise its relations with the EC. At the same time, the Community attaches importance to concluding agreements with individual East European States (including the Soviet Union). This will all contribute to the wider process of promoting closer economic links between East and Western Europe.

The USSR is trying to make its economy more efficient and competitive, and I think we should welcome that. But there can be no question of Soviet membership of GATT until there is clear evidence that the Soviet economy can and will trade in a manner compatible with GATT's open market principles. We are looking to the Uruguay Round to strengthen GATT as an institution, and to bolster and expand the open market trading system. We cannot accept any further dilution of the GATT principles.

The USSR was a signatory of the Bretton Woods Agreement in 1944, but she did not sign the Articles of Agreement establishing the IMF in 1945. Soviet membership of the IMF/IBRD, like any other country's, depends on the Soviet Union's willingness to contribute to the Fund's capital and fulfil the normal obligations of membership.

Q8 All summits address other than strictly economic issues. Terrorism in the air, as dealt with at the Bonn, 1979, meeting, is an example. Should new initiatives, particularly in respect of the hijacking and of terrorism, be undertaken at this time? [Also, given the timing of the Toronto meeting immediately after the Moscow summit, should the summit nations issue a collective statement about the desirable development of East-West relations?]

A8 Past Summits have addressed terrorism and our countries have always taken a firm stand, particularly on hijacking. In the light of recent terrorist acts, including the Kuwaiti Airlines hijacking, I expect terrorism to be one of the subjects discussed in Toronto. We shall certainly want to discuss East-West relations and President Reagan who has just returned from Moscow will be able to bring us up to date on developments in US-Soviet relations. We want a safe and stable relationship between East and West; greater security at a lower level of armaments; and further progress on human rights and openness in the Soviet Union.

Q9 Criticisms have been made from time to time about the structure of the summit meetings, which were designed originally to be informal, private, affairs. Has the meeting outlived its usefulness in its present form, and/or should major changes be made to its structure and objectives, and if so what kind?

A9 I greatly value the opportunity that Economic Summits provide for informal exchanges between Heads of State and Government. There is no other forum quite like it and it certainly has not outlived its usefulness. It is true that summits have become something of a media event in recent years and I wish they weren't such a circus. But we can't turn the clock back. And what really matters is what is discussed and decided in the business sessions. I believe that over the years, we have achieved a great deal. The summit has proved itself a very flexible structure, and in my view, no major changes are necessary. I am looking forward very much to meeting my colleagues again in Toronto - and not least Brian Mulroney - and to seeing something of your dynamic city.

TORONTO ECONOMIC SUMMIT

QUESTIONS FOR THE PRIME MINISTER FROM THE TORONTO STAR

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Of course there is no room for complacency. We must continue to co-operate closely with the aim of sustaining steady, non-inflationary growth across the world and bringing about a better balance to the pattern of world trade. *There has been* ~~Good progress has been made~~ in reducing the current account imbalances of the three largest economies. But

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these efforts need to be maintained. [The agreement reached among the Group of Seven early last year at the Louvre, and reaffirmed on a number of occasions since, has contributed to this process. And we should not forget how co-operation after last October's stockmarket collapse helped the world economy to weather the storm remarkably successfully.]

So the short answer to your question is; No. I don't think we need new co-ordination techniques. We have evolved flexible instruments. The important thing is to continue to make good use of them.

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World trade has grown steadily since the recession of the early 1980s. But the share enjoyed by debtor countries has fallen because they have had to cut their imports. One of the objectives of the debt strategy is to strengthen world trade. Industrialised countries have pledged themselves to sustain steady growth in their economies, to reject protectionism, and to open up their markets further, in the context of the GATT negotiations. Debtor countries are pursuing adjustment policies to increase exports and strengthen their balance of payments.

I remain concerned about the debt problem. But the current ~~case-by-case~~ strategy, ^{of considering each case on its merits, visiting} with economic reform by debtors

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From: T L Richardson

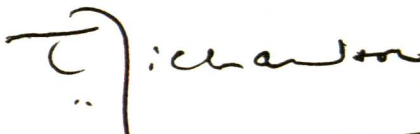
Date: 26 May 1988

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Mr Braithwaite
Mr Whitehead, News
Department

cc: Mr Sheinwald
Mr Fitton, ECD(E)
Ms Major, SCD
Mr Rollo, Economic
Advisers

**TORONTO ECONOMIC SUMMIT: QUESTIONS FOR THE PRIME MINISTER
FROM THE TORONTO STAR**

1. You asked for written replies to a series of questions
that the Toronto Star wishes to ask the Prime Minister. I
/ attach draft replies, cleared with HMT.



T L Richardson
Economic Relations Department
WH 413 270 2670

Q1. If I had to choose just one area in which to register significant progress at Toronto, I would go for reform of agriculture. It is vitally important that all developed countries, not just the Summit seven, should reduce agricultural support and protection. Industrialised countries' agricultural policies penalise tax payers and consumers and damage the long term interests of developing countries. We are all responsible and we all need to take action. We in the European Community have taken some, hard won steps to constrain production and expenditure. We all need to do more. Summit leaders should say so in Toronto.

Q2. Of course there are strains in the world economy. There always are. But they should not be exaggerated. Look at what we have achieved since the beginning of the decade. In 1981 inflation in the major countries averaged 10%. It is now 3%. Since the recovery from the 1981-82 recession economic growth has averaged over 3% a year. Successive Summits have endorsed the strategy that has produced this improvement in performance: use of macroeconomic policies to control inflation and microeconomic or structural reforms to strengthen the supply side of our economies.

Of course there is no room for complacency. Summit countries must continue to cooperate closely with the aim of sustaining steady, non-inflationary growth in the world economy and promoting the adjustment of trade balances. Good progress has been made in reducing the current account imbalances of the three largest economies. But these efforts will need to be maintained. The agreement reached among the Group of Seven early last year at the Louvre, and reaffirmed on a number of occasions since, has contributed valuably to this process. Nor should we forget how cooperative action after last October's stockmarket collapse helped the world economy to weather that particular storm.

Q3. I think it is going too far to say that the Summit is the "last chance" to give an impetus to the negotiations in the GATT. But it is certainly a very important opportunity that we must not pass up. At previous Summits, we have renewed our commitment to free trade

and to tackling the problems of excessive agricultural support and protection. It is essential for Summit leaders to give firm political backing to the GATT negotiations and to work for substantive progress so that the GATT Mid Term Meeting in Montreal in December is a success.

One of the key elements in the negotiations, and an area where substantial progress should be possible by the time of the Mid Term Meeting, is the reform of GATT procedures. The Summit can help to strengthen international support for GATT both by stressing the need for better adherence to GATT disciplines, and by giving a firm commitment to making improvements in dispute procedures and other institutional areas. We don't just need to update the rules. We also need to ensure that countries abide by them.

If the GATT negotiations fail we shall all suffer. It will increase the risk of resort to bilateral arrangements between regional trading blocks. That could be the quickest way to a recession, and it is the antithesis of what we are trying to achieve in GATT. It would lead to more disputes, not less; more spiralling support; and more trade wars. So I don't believe it will happen, and we must make sure it doesn't.

Q4. All our countries can do a lot at the microeconomic level to reduce unemployment. We must promote efficiency and flexibility in labour markets, increase labour mobility and improve incentives to work. Vocational training can help to reduce mismatches between the skills demanded by firms and those available.

But what governments cannot do is achieve any lasting reduction in unemployment by expansionary macroeconomic policies. Such policies only cause inflation - which ultimately destroys jobs.

Q5. World trade has grown steadily since the recession of the early 1980s. But debtor countries' share has fallen because they have had to cut their imports to more sustainable levels. One of the objectives of the debt strategy is to strengthen world trade. Industrialised countries have pledged themselves to sustain steady

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Q7. We welcome the economic reforms taking place in the Soviet Union and Eastern Europe, and are well aware of the opportunities for increased trade. We are moving fast to grasp them bilaterally and through the EC. We very much welcome COMECON's decision to formalise its relations with the EC. At the same time, the Community attaches importance to concluding its negotiations for agreements with individual East European States (including the Soviet Union). This will all contribute to the wider process of promoting closer economic links between East and Western Europe.

The USSR is trying to make its economy more efficient and competitive, and we welcome that. But there can be no question of Soviet membership of GATT until there is clear evidence that the restructuring of the Soviet economy has reached the stage where it can and will trade in a manner compatible with GATT's open market principles. We are looking to the Uruguay Round to strengthen GATT as an institution, and to bolster and expand the open market trading system. We cannot accept any further dilution of the GATT principles.

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Q9. I place a high value on the opportunity that Economic Summits provide for informal exchanges between Heads of State and Government. There is no other forum quite like it. Certainly Summits have become more of a media event in recent years. But we cannot turn the clock back to a pre-^{Television}~~Information Technology~~ age. The Summit structure has proved itself very flexible, and in my view no major changes are necessary. I am looking forward very much to meeting colleagues again in Toronto, and to seeing something of your city.