

CONFIDENTIAL



file 116
adv PC

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

SIR ROBERT ARMSTRONG

TORONTO ECONOMIC SUMMIT

The Prime Minister read the report of the meeting of Personal Representatives conveyed in Wellington telegram No. 506. On the whole, this confirmed her view that meetings so far ahead of the Summit are of limited use. On a point of detail, she is firmly of the view that there is not sufficient time at a Summit to make a retreat on the CHOGM pattern worth while.

CHARLES POWELL

18 November 1987

CONFIDENTIAL

syhw

CONFIDENTIAL

137240

MDLIAN 8949

CONFIDENTIAL
FM WELLINGTON
TO PRIORITY FCO
TELNO 506
OF 130330Z NOVEMBER 87
AINFO PRIORITY OTTAWA

*This is ridiculous
There was no point in
such an
early meeting*

TORONTO ECONOMIC SUMMIT 1988

1. PERSONAL REPRESENTATIVES MET IN BRITISH COLUMBIA ON 6 AND 7 NOVEMBER FOR FIRST PREPARATORY MEETING.

2. ON SUBSTANCE, THERE WAS A DISCUSSION OF THE RESULTS AND IMPLICATIONS OF THE CRISIS IN THE STOCK AND EXCHANGE MARKETS. FOR SEVEN OUT OF THE EIGHT THE CRUCIAL QUESTION WAS THE OUTCOME OF THE NEGOTIATIONS BETWEEN THE UNITED STATES ADMINISTRATION AND CONGRESS ON THE BUDGET DEFICIT. IF THE OUTCOME WAS AN AGREEMENT WHICH CONVINCED MARKETS THAT THERE WOULD BE APPROPRIATE ACTION OVER TIME TO REDUCE THE DEFICIT IT COULD BE HOPED AND EXPECTED THAT MARKETS WOULD SETTLE DOWN, AND THE EFFECTS OF THE CRISIS ON WORLD ECONOMIC GROWTH WOULD BE LIMITED. WITHOUT SUCH AN OUTCOME, THE OUTLOOK WOULD BE MUCH MORE UNCERTAIN, AND IT WOULD BE UNLIKELY THAT ACTION BY OTHER MAJOR INDUSTRIALISED COUNTRIES (EG GERMANY AND JAPAN) WOULD MAKE MUCH DIFFERENCE. THE FRENCH REPRESENTATIVE SHARED THIS VIEW, BUT WAS MORE PESSIMISTIC THAN OTHERS ABOUT THE PROSPECTS FOR AGREEMENT BETWEEN THE ADMINISTRATION AND THE CONGRESS.

3. THE ODD MAN OUT WAS THE UNITED STATES REPRESENTATIVE (WALLIS). WHILE CONCEDED THAT THE US TREASURY WAS TO BE ACCEPTED AS THE SOLE SPOKESMAN FOR THE ADMINISTRATION, HE SAID THAT DID NOT MEAN THAT ALL THE AGENCIES OF THE ADMINISTRATION AGREED WITH THE TREASURY. HE ARGUED THAT IT WAS ILLUSORY TO BLAME ALL THE WORLD'S TROUBLES ON THE US BUDGET DEFICIT. THAT WAS THE US'S BIGGEST PROBLEM, BUT NOT FOR INTERNATIONAL REASONS. THAT WAS JUST A MATTER OF CONTROLLING PUBLIC EXPENDITURE. IT WAS ALSO AN ILLUSION TO SUPPOSE THAT RAISING TAXATION WOULD REDUCE THE BUDGET DEFICIT: HISTORY SHOWED THAT IT USUALLY DID NOT DO SO. THE GENERAL FEELING (HE SAID) WAS THAT THE PROBLEM WAS DUE TO US MONETARY POLICY. SINCE 1978 MONEY SUPPLY HAD EITHER BEEN INCREASING TWICE AS FAST AS IT SHOULD OR NOT AT ALL. ANALYSIS WAS COMPLICATED BY AN APPARENT REDUCTION IN THE TIME LAGS BETWEEN CHANGES IN MONEY SUPPLY

AND EFFECTS, FROM PERIODS OF 15 TO 18 MONTHS TO PERIODS OF 6 TO 9 MONTHS. IN 1985-86 RAPID GROWTH IN MONEY SUPPLY HAD FED INTO SPECULATIVE INVESTMENT IN MARKETS. IN FEBRUARY 1987 THE FEDERAL RESERVE HAD STABILISED MONEY SUPPLY, AND THE EFFECT HAD BEEN TO PUNCTURE MARKETS. ALMOST EVERYTHING WAS DIFFERENT FROM 1929. NOW THERE WAS BEGINNING TO BE A BELIEF THAT THERE WOULD BE SOME TAX INCREASES, WHICH WOULD HAVE THE WRONG EFFECTS. MOREOVER FEAR THAT PEOPLE WERE STANDING BY THE LOUVRE ACCORD WAS HAVING A NEGATIVE EFFECT.

4. DESPITE THIS MINORITY VIEW, THE GENERAL CONCLUSION WAS THAT RECENT EVENTS HAD STRENGTHENED AND NOT DIMINISHED THE VALUE OF AND NEED FOR INTERNATIONAL COORDINATION AND COOPERATION. THAT HAD CONTRIBUTED TO THE ACHIEVEMENT OF FIVE YEARS OF GROWTH IN THE WORLD ECONOMY, AND KEEPING GROWTH GOING WOULD DEPEND ON THE REESTABLISHMENT OF CONFIDENCE IN THE VALUE AND EFFECTIVENESS OF COOPERATION. WE SHOULD NEED TO CONTINUE WITH 'MANAGED FLOATING', BUT MANAGEMENT MIGHT NEED TO BE MORE FLEXIBLE. THIS WAS LIKELY TO BE A MAJOR

ISSUE FOR THE TORONTO SUMMIT, THOUGH MUCH COULD HAPPEN BETWEEN NOW AND THEN.

5. THERE WERE ALSO UPDATING REPORTS OF THE STATE OF PLAY ON PROPOSALS TO INCREASE THE STRUCTURAL ADJUSTMENT FACILITY, AND ON THE URUGUAY ROUND OF MTN.

6. AS TO FORMAT OF THE SUMMIT MEETING, NO GREAT CHANGES WERE FORESEEN. ARMSTRONG MADE THE CASE FOR A RETURN TO ARRANGEMENTS WHICH MADE THE MEETING AS MUCH AS POSSIBLE AN OCCASION FOR AN INFORMAL EXCHANGE OF VIEWS AMONG HEADS OF STATE OR GOVERNMENT, BUT THE DISCUSSION MADE IT CLEAR THAT OTHERS SAW DIFFICULTIES IN THAT, AND IN PARTICULAR:

A. IT PRESENTED PROBLEMS FOR THOSE COUNTRIES WITH COALITION OR COHABITING GOVERNMENTS SEMI COLON

B. THERE WERE EXPECTED TO BE SOME 4,500 REPRESENTATIVES OF THE MEDIA AT TORONTO, AND THAT WOULD CREATE ITS OWN PRESSURES ON THE PARTICIPANTS.

7. IT WAS, HOWEVER, AGREED THAT ECONOMIC ISSUES WERE LIKELY TO BE ESPECIALLY IMPORTANT AT THIS SUMMIT, AND THAT THE

HEADS OF STATE OR GOVERNMENT SHOULD NOT APPEAR TO BE SIMPLY RATIFYING TECHNICAL AGREEMENTS OR ARRANGEMENTS MADE BY FINANCE MINISTERS. IT WAS SUGGESTED THAT AT TORONTO PLENARY MEETINGS SHOULD START AT THE BEGINNING OF THE FIRST FULL DAY, AND CONTINUE UNTIL THE ECONOMIC DECLARATION WAS AGREED ON THE MORNING OF THE SECOND FULL DAY. HEADS OF STATE OR GOVERNMENT COULD DISCUSS POLITICAL ISSUES AT INFORMAL GATHERINGS SUCH AS MEALS SEMI COLON AND MIGHT HAVE A RESTRICTED MEETING OF HSG ONLY FOR AN INFORMAL EXCHANGE OF VIEWS ON ECONOMIC ISSUES ON THE SECOND DAY, AFTER THE DECLARATION HAD BEEN APPROVED.

8. OSTRY SAID THAT, FOLLOWING THE CHOGM EXPERIENCE, THE CANADIAN PRIME MINISTER WAS MUCH ATTRACTED BY THE IDEA OF A RETREAT FOR HEADS OF STATE OR GOVERNMENT. OTHERS DOUBTED WHETHER THE TIME AVAILABLE AT AN ECONOMIC SUMMIT WAS SUFFICIENT TO ALLOW FOR A RETREAT OF THAT KIND. *It is now*

9. FURTHER MEETINGS OF PERSONAL REPRESENTATIVES WERE PROVISIONALLY AGREED FOR 27 TO 29 FEBRUARY, 13 TO 15 OR 15 TO 17 MAY AND 3 TO 5 JUNE. THE FEBRUARY AND JUNE MEETINGS WOULD BE IN CANADA. THE MAY MEETING WOULD BE IN EUROPE, BEFORE OR AFTER THE OECD MINISTERIAL MEETING. THE FRENCH REPRESENTATIVE SAID THAT IT WOULD NOT BE POSSIBLE TO HOLD THE MEETING AT THAT TIME IN FRANCE, BECAUSE THE PRESIDENTIAL ELECTION WOULD BE IN FULL SWING. ARMSTRONG WAS ASKED AND UNDERTOOK TO FIND OUT WHETHER THE UK WOULD BE PREPARED TO HOST THE MEETING IN BRITAIN. THE PREFERENCE WOULD BE TO HOLD THE MEETING AT SOME CONVENIENT PLACE AWAY FROM LONDON, IN ORDER TO IMPROVE CONCENTRATION. AN EARLIER MEETING AT BROCKET HALL WAS RECALLED WITH APPROVAL.

[3 more!]

10. PRACTICAL ARRANGEMENTS FOR THE SUMMIT WILL BE DISCUSSED IN THE USUAL WAY THROUGH THE HIGH COMMISSION IN OTTAWA. NO SIGNIFICANT CHANGES FROM PREVIOUS YEARS ARE FORESEEN IN SUCH MATTERS AS SIZE OF DELEGATIONS, ACCESS, AND RULES FOR MEDIA BRIEFINGS.

11. ARMSTRONG WOULD BE GRATEFUL IF CONFERENCE DEPARTMENT WOULD PURSUE AS A MATTER OF URGENCY, IN CONSULTATION WITH HIS OFFICE, THE QUESTION OF A UK VENUE FOR THE MAY MEETING OF PERSONAL REPRESENTATIVES.

12. ADVANCE COPIES TO BRAITHWAITE, TREASURY (FOR LITTLER) AND CABINET OFFICE (FOR WOOLLEY).

SOUTAR

YYYY

DISTRIBUTION

274

MAIN 237

ECONOMIC SUMMIT
STANDARD
ERD (-)
ECONOMIC ADVISERS
SPD
FED
NAD
ECDS
TRED
SOVIET

EED
UND
MAED
SCD
NCAU
MR MAUD
MR MCLAREN
SIR D MIERS
MR BRAITHWAITE

ADDITIONAL 37

ECONOMIC SUMMIT
MR LITTLER, HM TREASURY

MR WOOLLEY, CAB OFFICE

NNNN