

8. PROSPECTS FOR ECONOMIC PROGRESS

Last weekend, the personal representatives of the leaders, the political directors, and the deputy ministers of finance of the world's major industrial democracies and the European Community met on the outskirts of Toronto for their final gathering before the Toronto Summit. Their task was to seek consensus on the issues that would preoccupy their leaders during the three days of discussions on June 19-21, to identify areas where forward movement in a united front was possible, and to probe for the elements of flexibility in one another's positions required to make the Summit a genuinely productive experience.

There remains, as always, some chance that the leaders themselves will, in an outburst of spontaneity, throw away the agendas and agreements of these officials when they begin their discussions in Toronto on the afternoon of June 19. Moreover, as West German Chancellor Helmut Kohl and some of the other leaders will be coming to Canada early for private bilateral discussions with Prime Minister Mulroney in advance of

the Summit, there is a greater than usual opportunity for the leaders to put their own imprint on the plan for their summit.

But with the final pre-summit sherpas meeting now over, it is possible to make some good judgments about the probable tone, significance, agenda and results of the Toronto Summit in the economic field.

In contrast to the great breakthroughs and legendary failures of many of the past thirteen summits, the Toronto gathering will likely be a rather quiet affair, featuring solid rather than spectacular results. Its tone will be set, from the start, by a common desire to celebrate the successes of the now-departing grand old man of the summits of the 1980's - Ronald Reagan. Thus the leaders will applaud and nod approvingly when Reagan reports on the great success he believes he has had in forwarding the cause of arms control, east-west detente, human rights, capitalism, and democracy in his recent summit in Moscow, in finding the formula for sustained, non-inflationary growth in the United States

and elsewhere, and in restoring the unity, self confidence, and spirit of leaders and citizens throughout the industrialized world.

Critics might claim these achievements are nothing more than the false glow from an unsustainable credit card prosperity offered by an aging leader out of touch with tough truths. But in sharp contrast to the summits of the 1970's, there is no demoralizing "crisis of governability" on the minds of the leaders of the Toronto Summit.

This sense of self-satisfied optimism is reinforced by two more basic, short term considerations. The first is the very recent spate of surprisingly good real growth figures in the United States, Canada, and elsewhere. These provide good evidence that the long awaited period of slower growth is not on the immediate horizon. They also lend strong weight to the hope that this Summit can and should attempt little more than to hold the fort until a new U. S. President is safely inaugurated next year. And they suggest to some that

the market-oriented combination of demand and supply measures featured at the past several summits represents a winning formula for the future.

There is thus a good chance that the Toronto Summit will focus on what the Summits of the 1980's have done best - singling out real and potential inflationary pressures as the ultimate evil to be purged, aggressively trumpeting market-oriented solutions at the macroeconomic and now microeconomic level as the key instrument, and boldly declaring that holding the course here will naturally generate all the growth, employment and budget revenue any leader could want.

Underneath the confident current rendition of this now familiar summit refrain is the all new 1988 fear. This is the conviction the very fragile and nervous markets that brought the October 19th stock market crash and its April 14 mini-sequel are still on tenterhooks, waiting for any sign of disarray from governments in order to trigger a third, and probably fatal plunge. Here the prescription is clear. To provide the economic

credibility necessary to convince a skeptical market that the major imbalances in the industrialized economy can be corrected through a managed adjustment, the Summit leaders will continue to rely on the coordination provided by their finance ministers, now backed by very intensive and effective process of consultation among the real experts in the deputy minister's chair. At Toronto, what the leaders themselves will contribute to sustaining this delicate confidence game with the market is to declare with great political force that they are fully behind this G-7 process and its product, and demonstrate with the great political skill that is their unique asset that they are a completely united family in which no-one is likely to feud and from which no-one is likely to defect. It is entirely appropriate that at the end of the era of "Ronald Thatcherism", a very frightened market is using its magic to inspire the unity, coordination, and intervention among the Summit governments that the leaders themselves originally ideologically abhorred.

Beyond the politics of economic confidence-building, there are at least three other economic achievements the Toronto Summit can be expected to generate. The first is to provide the first serious discussion among the seven leaders about the growing trend to regionalism in international trade, and its implications for the open, nondiscriminatory, multilateral trade system all profess to want. The summiteers will thus examine the Canada-U.S. bilateral trade agreement, and the even more ambitious European plan for the achievement of a single internal market within the European Community by 1992. They will probably, on balance, bless both. But led by the Japanese, who are left out of both these projects to build continental megamarkets, and who are the real force for future efficiency and competitiveness in the world, they will have to seriously consider how such deals can be building blocks of a larger structure and not regional fortresses to protect aging economies from new competition.

A second area concerns agricultural trade subsidies.

Host Prime Minister Brian Mulroney's deep commitment to meaningful summit action on this issue was dramatically displayed during his recent pre-summit trip to Europe, when he gave such visibility to this issue that he, in effect, forced the Toronto Summit to do something about it if the gathering is to be considered a success. While the big political breakthroughs on this issue will and should await the Mid Term Review of the Uruguay Round of multilateral trade negotiations in Montreal in December, the Toronto summitters could vow not to increase their trade and production subsidies over existing levels during the next six months.

Thirdly, there is the prospect of a major step on the critical north-south issue of debt relief for the world's poorest countries, notably the devastated economies of sub Saharan African. Here the issue is less one of financial prudence or creating precedents as bankers would define them than sheer humanitarianism and common sense, for these economies have no hope of repaying the loans that the major industrialized

government's have given them. While Canada would prefer that others follow its model and simply write off these debts, the much larger size of British, and French liabilities will probably preclude such a bold approach. But with West Germany and Japan in particular committed to serious action, the question is no longer one of whether to move, but merely how far, and by what route, to go.