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(Economic Summit, Canada, [Toronto], 06/19/1988-  
06/20/1988)

**Case File Number(s):** 583655 (11 of 12)

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# WITHDRAWAL SHEET

## Ronald Reagan Library

**Collection Name** WHITE HOUSE OFFICE OF RECORDS MANAGEMENT  
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**Withdrawer**

DLB 4/24/2020

**File Folder** FO006-13 (583655) (11 OF 12)

**FOIA**

F16-011

**Box Number** FO006-48

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185

ID	Doc Type	Document Description	No of Pages	Doc Date	Restrictions
244890	REPORT	DUPLICATE OF #244858	2	5/25/1988	B1
244891	REPORT	DUPLICATE OF #244859	2	5/24/1988	B1
244892	REPORT	DUPLICATE OF #244860	2	5/25/1988	B1
244893	REPORT	DUPLICATE OF #244861	2	5/25/1988	B1
244894	REPORT	DUPLICATE OF #244862	2	5/25/1988	B1
244895	REPORT	DUPLICATE OF #244863	2	5/25/1988	B1
244896	REPORT	DUPLICATE OF #244864	2	5/25/1988	B1
244897	REPORT	DUPLICATE OF #244865	2	5/25/1988	B1
244898	PAPER	DUPLICATE OF #244866; BACKGROUND PAPER SCIENCE COOPERATION	2	ND	B1

The above documents were not referred for declassification review at time of processing

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ITALY

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BACKGROUND PAPER  
ITALY

Economic Overview: Solid growth, low inflation, high unemployment.

- Slight slackening of growth foreseen in 1988-89 due to slower domestic demand and investment growth; rising unemployment as job creation in service sector cannot offset declines in industry and agriculture.
- Budget deficit remains major economic problem, highest by far of Summit Seven countries at 11% of GDP; GOI's planned revenue measures may reduce it slightly.
- New government seeks alignment of fiscal and monetary policies with other major European countries by 1992 unlikely to be achieved; continued slow structural change in labor and capital markets likely.
- Slight current account deficit likely in 1988 due to declining trade surplus and small services deficit.

Political Overview: New government somewhat stronger, no major domestic or foreign policy changes.

- Prime Minister De Mita's five party coalition likely to be stronger, longer-lived; firmer Socialist support; De Mita retains Christian Democrat party leadership; same five parties participate; next major elections (European Parliament) 1989.
- De Mita not experienced in foreign affairs or economic issues; likely to give FM Andreotti free rein, rely on Treasury Minister Amato, Trade Minister Ruggiero.

Italian Views on Summit Issues

- De Mita proposes Summit underscore urgency of environment issues; likely to urge communique endorsement of the Brundtland report, increased international action on ozone, and active support for environment work in UNEP and other fora.
- Italians follow EC line on GATT mid-term review and agricultural subsidies; relatively "soft" on LDC issues; limited overseas banking exposure; greatly increased aid program, especially in Africa; support prompt IDA replenishment, World Bank capital increase.

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-2-

- Italians pleased with arrangements for economic policy coordination and exchange rate stability.
- Italians supportive on arms control, counter-terrorism, enforcement resolution on Iran-Iraq as follow-on to Resolution 598.

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244890	REPORT  DUPLICATE OF #244858	2	5/25/1988	B1

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244891	REPORT  DUPLICATE OF #244859	2	5/24/1988	B1

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244892	REPORT  DUPLICATE OF #244860	2	5/25/1988	B1

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UNITED KINGDOM

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BACKGROUND PAPER  
UNITED KINGDOM

Economic Overview: Good growth, moderate inflation.

- The British economy's expansion continues, but may slow some in 1988; GDP growth (3.7% in 1987) among highest in OECD.
- Inflation (4.4% in 1987) remains under control.
- Thatcher's structural changes paying off: productivity is up; inflation is down; unemployment slowly declining; new labor laws decreasing days lost to strikes and restricting the unions' political power.
- Rising corporate tax and VAT revenues have allowed the Thatcher government to cut income taxes and balance the budget. Privatization program continues.

Political Overview: Thatcher government firmly in control.

- Conservative government maintains commanding (over 100 seat) majority in Parliament.
- Political opposition remains fragmented. The Labor Party is undergoing a leadership battle while simultaneously attempting to refocus its policies.
- Three issues--health care, education and a proposed local property tax--have proven controversial and raised concerns from opposition parties and back bench Tories. So far, the opposition looks unlikely to stop Thatcher's desire to restructure British society.

British Views on Summit Issues:

- Agricultural reform will be high on the British agenda. They would prefer that any statements on the issue be positive and not undercut the recent EC agreement reached in Brussels.
- On trade, the British will want to focus on ways to improve the functioning of the GATT.
- British continue to support counterterrorism measures; may want to focus on this issue in the wake of the release of the French hostages.

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244893	REPORT	2	5/25/1988	B1
	DUPLICATE OF #244861			

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244894	REPORT  DUPLICATE OF #244862	2	5/25/1988	B1

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244895	REPORT  DUPLICATE OF #244863	2	5/25/1988	B1

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EUROPEAN COMMUNITY

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BACKGROUND PAPER  
EUROPEAN COMMUNITY

Economic Overview: Slow growth, increased integration

- In 1988, the EC's real GNP growth will be 2.3 percent, reflecting strong domestic demand but slowing export growth. Inflation will be steady at 3 percent.
- The EC has an ambitious program (Single Market) to remove remaining internal barriers to free movement of goods, capital and people by 1992. The program should ease structural adjustment and facilitate growth.
- The EC agreed in February on budget reform, including increased revenues, limits on direct agricultural spending and higher assistance to poorer members (Greece, Portugal, Spain and Ireland).

Political Overview: Commission's powers increase

- EC Commission President Delors will represent the Community (along with Kohl who currently holds rotating Presidency).
- Delors finds his semi-observer status at Summit awkward. The Commission speaks for EC on trade issues, but not on macro issues which remain Delors' personal interest. Delors seeks Commission role on political issues, which are prerogative of Presidency.
- Entire EC Commission will be renewed/replaced in January, 1989. Good chance member states will keep Delors as President.
- Commission powers are enhanced by European Single Act of 1985. The European Parliament is also beginning to develop legislative powers. Single Market and possible expansion in 1990s will offer both problems and opportunities.

EC Views on Summit Issues:

- EC wants Summit to provide impetus to GATT negotiations; renew commitment to combat protectionism.
- EC sees GATT negotiation as single undertaking; wants to avoid singling out areas for results this year. EC believes U.S. only seeking progress on agriculture.
- On agriculture EC wants to avoid firm commitment to implement market-oriented reform in near term, seeks measures to limit production by others.

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244896	REPORT  DUPLICATE OF #244864	2	5/25/1988	B1

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244897	REPORT  DUPLICATE OF #244865	2	5/25/1988	B1

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THE PRESIDENT OF THE EUROPEAN COUNCIL IS  
WEST GERMAN VICE CHANCELLOR GENSCHER. SEE  
THE FRG SECTION FOR HIS BIOGRAPHY.

III. BACKGROUND PAPERS

ECONOMIC TOPICS

~~SECRET~~

ECONOMIC ISSUES  
BACKGROUND PAPERS / POINTS TO BE MADE

1. Agriculture
  - o ASA 301 Petition
  - o European Community (EC) Criticism of U.S. Agricultural Programs
  - o British Proposal
  - o U.S. Acreage Reduction on Wheat
2. Security Market Regulation
3. Economic Implications of Social Programs
4. Science Cooperation
5. Space Station
6. Education

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Sec. 3.4(b), E.O. 12858, as amended  
White House Guidelines, Apr. 11, 2008  
BY NARA *dl* DATE 3/16/2020

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BACKGROUND PAPER  
AGRICULTURE:  
ASA 301 PETITION

ISSUE

On January 5, 1988, the U.S. Trade Representative's Office accepted a petition by the American Soybean Association (ASA) asking for relief from unfair trade practices by the European Community (EC) under Section 301 of the Trade Act of 1974. High internal subsidies for the production and processing of domestically grown oilseeds, exceeding 200 percent of the world price, have supported tremendous growth in oilseed production in the EC, to the detriment of soybean and soybean meal imports from the United States. U.S. exports of soybeans and soybean meal to the EC fell by 35 percent over the past 5 years to \$2 billion in 1987.

After several fruitless attempts to resolve this issue bilaterally, the EC is now blocking adjudication of this dispute in the GATT. The EC contends that measures introduced in the oilseeds sector last February will take care of U.S. concerns. Even traditional U.S. supporters on contentious agricultural issues, like the U.K., are currently pressing the USG to drop the case. This case is viewed by many to be a frontal attack on the EC's agricultural support system.

This is a sensitive issue for both the United States and the EC. The EC has argued that the United States should drop the case or delay action, and that the case could be detrimental to the Uruguay Round trade negotiations.

(If raised, points follow at next page.)

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POINTS TO BE MADE  
AGRICULTURE:  
ASA 301 PETITION

- THE EC CONTINUES TO BE A VERY IMPORTANT BUT SHRINKING MARKET FOR U.S. SOYBEANS AND SOYBEAN MEAL. THE UNITED STATES HAS SEEN ITS EUROPEAN MARKETS FOR WHEAT AND CORN DISAPPEAR. OUR SOYBEAN INDUSTRY IS UNWILLING TO STAND BY WHILE ITS MARKET FOLLOWS THE SAME PATH BECAUSE OF EC SUBSIDIES THAT IMPAIR THE DUTY-FREE TREATMENT OF SOYBEANS.
- THE RECENT EC BUDGET PACKAGE DOES NOT ADDRESS THE CONCERNS OF THE U.S. SOYBEAN FARMERS. SUPPORT PRICES IN THE EC ARE STILL 2 TO 3 TIMES WORLD PRICE LEVELS, AND GROWTH IN EC OILSEED PRODUCTION HAS BEEN TREMENDOUS. AT BEST, WE WOULD EXPECT THESE MEASURES WILL ONLY SLOW FUTURE INCREASES IN PRODUCTION.
- WE VIEW GATT DISPUTE SETTLEMENT AS THE LEAST CONFRONTATIONAL MANNER OF RESOLVING OUR TRADE DISPUTE AND ENSURING THAT WE ALL ABIDE BY OUR INTERNATIONAL OBLIGATIONS. WE ARE ALSO OPEN TO A BILATERAL SOLUTION. BUT THE EC'S CONTINUED REFUSAL TO ALLOW THE GATT DISPUTE SETTLEMENT PROCEEDINGS TO MOVE FORWARD UNDERMINES THE INTEGRITY OF THE GATT AND MOVES US TOWARD CONFRONTATIONAL ALTERNATIVES.

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BACKGROUND PAPER  
AGRICULTURE:  
EUROPEAN COMMUNITY (EC) CRITICISM OF U.S. AGRICULTURAL PROGRAMS

ISSUE

EC officials may raise a number of complaints concerning recent U.S. actions in agriculture, emphasizing that these actions worsen the world agriculture situation. They may argue that EC Heads of Government, on the other hand, took a major step toward so-called reform of Community agriculture last February. The EC expects its trading partners to recognize the importance of its actions toward reform of world agriculture. Our response is that the EC has still not taken measures equivalent to U.S. actions over the past several years. Both EC and U.S. need to adopt policies that address the fundamental problem in world agriculture, excessive support policies linked to production or prices.

(If raised, points follow at next page.)

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POINTS TO BE MADE  
AGRICULTURE:  
EUROPEAN COMMUNITY (EC) CRITICISM OF U.S. AGRICULTURAL PROGRAMS

- MEASURES AGREED TO BY EC HEADS OF GOVERNMENT LAST FEBRUARY ARE AIMED MORE AT CONTROLLING RUNAWAY EC SPENDING ON AGRICULTURE THAN REFORMING COMMUNITY AGRICULTURE. EVEN WITH THESE MEASURES, EC SPENDING ON AGRICULTURAL SUPPORT WILL INCREASE TO A BUDGETED 27.5 BILLION ECU IN 1988 (\$33.7 BILLION), NEARLY 40 PERCENT ABOVE THE 1985 LEVEL. AT THE SAME TIME, U.S. SPENDING ON AGRICULTURAL PROGRAMS IS EXPECTED TO DECLINE IN FY 1988 TO \$19 BILLION, 25 PERCENT LOWER THAN IN 1985.
- RATHER THAN ALLOWING MARKET FORCES TO PLAY AN INCREASING ROLE IN INFLUENCING PRODUCER DECISIONS, THE EC CHOSE TO LOCK-IN HIGH LEVELS OF PRODUCTION FOR BOTH GRAINS AND OILSEEDS. REDUCTIONS IN SUPPORT PRICES WILL ONLY OCCUR IF THESE PRODUCTION LEVELS ARE EXCEEDED. EVEN IF CUTS DO OCCUR, EC PRICES REMAIN 2 TO 3 TIMES THE WORLD LEVEL.
- THE EUROPEAN COMMUNITY GRAIN TRADE ASSOCIATION (COCERAL) PREDICTS A 1988 EC GRAIN HARVEST OF 159.1 MILLION METRIC TONS, LESS THAN 1 MMT SHORT OF THE 160 MMT PRODUCTION THRESHOLD THAT WOULD TRIGGER PRICE CUTS. IF COCERAL'S ESTIMATE PROVES CORRECT, THERE WILL BE NO 3 PERCENT CUT IN TARGET AND INTERVENTION PRICES IN 1989. THIS IN TURN MEANS THAT IT WILL BE 1990 BEFORE EC GRAIN PRODUCERS SUFFER ANY PENALTY AS A RESULT OF THE REFORMS.

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- THE EC'S NEW LAND SET-ASIDE PROGRAM WILL ONLY REMOVE ABOUT 1 MILLION HECTARES FROM PRODUCTION OR LESS THAN 1 PERCENT OF THE EC'S ARABLE LAND. IN 1987, THE UNITED STATES REMOVED 29 MILLION HECTARES (69 MILLION ACRES) FROM PRODUCTION, ALMOST EQUAL TO THE ARABLE LAND AREA OF FRANCE AND SPAIN COMBINED AND ALMOST 4 TIMES THE ARABLE LAND IN WEST GERMANY.
- EVEN WITH THE RECENT REDUCTION IN OUR ACREAGE REDUCTION PROGRAM (ARP) FOR WHEAT FROM 27.5 TO 10 PERCENT, TOTAL U.S. WHEAT ACREAGE IDLED IN 1989 WILL BE 20 MILLION ACRES (8 MILLION HECTARES), ALMOST EQUAL TO THE WHEAT ACREAGE IN FRANCE, SPAIN AND PORTUGAL COMBINED.
- MEANWHILE, EC EXPORT REFUNDS IN 1987 REACHED 9 BILLION ECU (\$10.4 BILLION) AND ARE EXPECTED TO HIT 10.4 BILLION ECU in 1988, OVER 10 TIMES THE LEVEL OF U.S. EXPORT SUBSIDY EXPENDITURES.
- SINCE DECEMBER 1983, THE UNITED STATES HAS TAKEN STEPS TO CONTROL MILK OUTPUT BY LOWERING MILK PRICE SUPPORTS BY 15 PERCENT. WE ALSO HAVE REDUCED THE SIZE OF OUR HERDS, THROUGH THE DAIRY TERMINATION PROGRAM DURING WHICH WE TOOK ONE AND A HALF MILLION COWS OUT OF PRODUCTION -- A NUMBER EQUAL TO THE NATIONAL HERDS OF DENMARK AND LUXEMBOURG COMBINED.

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BACKGROUND PAPER  
AGRICULTURE:  
BRITISH PROPOSAL

ISSUE

The United Kingdom has recently suggested an outline of a proposal for reconciling European and United States differences on agriculture with a view to reaching an agreement by the Uruguay Round Mid-Term Review in December. They may raise this proposal at the Summit.

The U.K. proposal for a Mid-Term Review package on agriculture would:

- clearly enshrine the principle of reducing (rather than eliminating) levels of assistance to farmers;
- agree to an approach using the Producer Subsidy Equivalent (PSE) index to gauge reductions without trying to set a final target for reduction at this stage;
- provide an immediate down payment toward the long term goal (i.e., agree on short term measures).

This proposal would not achieve a fundamental, market oriented reform of current agricultural policies. It could perpetuate the existing inequities in our comparative assistance levels, and could provide no agreement on the ultimate objective.

It calls for only a reduction in trade distorting subsidies and barriers, continuing existing failed policies. For lasting results, we must have a fundamental change in policies, not just a reduced level of existing policies, to break the link between support policies and production or prices. The immediate "downpayment" on the long term goal must not be the only definitive part of the agreement. This reaffirms our conviction that the Europeans are only interested in a quick fix for the current crisis.

(If raised, points follow at next page.)

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POINTS TO BE MADE  
AGRICULTURE:  
BRITISH PROPOSAL

- WE APPRECIATE U.K. EFFORTS TO FURTHER THE DIALOGUE ON THE AGRICULTURAL REFORM ISSUE. HOWEVER, THE U.K. PROPOSAL WOULD NOT PROVIDE FOR A LASTING SOLUTION TO THE PROBLEMS WE ALL FACE IN AGRICULTURAL TRADE.
- THE PROPOSAL WOULD DO LITTLE TO IMPROVE MARKET ACCESS OR REMOVE THE TRADE DISTORTIONS CAUSED BY SUBSIDIES AROUND THE WORLD AND, AS SUCH, WOULD UNDERMINE SUPPORT FROM THE U.S. AGRICULTURAL COMMUNITY FOR THE URUGUAY ROUND PROCESS.
- THE URUGUAY ROUND WILL NOT BE SUCCESSFUL IF WE FAIL TO ADDRESS AND RESOLVE THE BASIC AGRICULTURAL PROBLEM OF DOMESTIC SUPPORT POLICIES LINKED TO PRODUCTION OR PRICES WHICH RESULT IN SUPPLY IMBALANCES AND OTHER DISTORTIONS TO PRODUCTION AND TRADE.
- OUR OBJECTIVE IS TO CHANGE THE ALLOWABLE WAYS AND MEANS OF SUPPORT FOR AGRICULTURE THROUGH A FUNDAMENTAL REFORM OF AGRICULTURAL POLICIES MULTILATERALLY.
- THE DEBATE OVER SHORT TERM AND LONG TERM MEASURES HAS TENDED TO OBSCURE THE ISSUE. WE ARE FULLY PREPARED TO TAKE SO-CALLED SHORT TERM MEASURES PROVIDED THEY ARE INITIATED IN THE CONTEXT OF AND ARE DIRECTLY RELATED TO AN AGREEMENT WHICH BEGINS THE POLICY REFORM PROCESS.

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BACKGROUND PAPER  
AGRICULTURE:  
U.S. ACREAGE REDUCTION ON WHEAT

ISSUE

In announcing the provisions of the 1989 U.S. wheat program, the U.S. Government will require U.S. wheat producers to set aside 10 percent of their wheat acreage to be eligible for support price benefits. This is down from 27.5 percent for the 1988 crop. The EC, Canada, and Australia view this change as a movement toward increased production of U.S. wheat that will reverse the strengthening of the market over the last year. These countries may allege that the United States is not living up to its OECD commitment not to contribute toward worsening world market conditions.

Prior to the ARP announcement, USDA estimates of wheat for 1988/89 showed: (1) global supplies and requirements to be in very close balance, (2) total U.S. domestic utilization and exports again exceeding production for the third year in a row, and (3) a third consecutive year of drawdown of stocks among exporting countries. U.S. ending stocks were forecast to fall dramatically in 1988-89 to the lowest level since 1975/76.

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POINTS TO BE MADE  
AGRICULTURE:  
U.S. ACREAGE REDUCTION ON WHEAT

- THE REDUCTION OF THE ARP TO 10 PERCENT WAS A RESPONSIBLE DECISION BASED ON THE WORLD SUPPLY AND DEMAND SITUATION. THE NEW SET ASIDE IS CONSIDERED TO BE THE LEVEL THAT WILL MEET U.S. AND WORLD WHEAT REQUIREMENTS.
- WITH A 10 PERCENT ARP, THE TOTAL WHEAT ACREAGE IDLED, INCLUDING THE CONSERVATION RESERVE AND 0/92 PROGRAMS, WILL STILL BE NEARLY 20 MILLION ACRES (8 MILLION HECTARES). THIS IS PRACTICALLY THE SAME AS THE AVERAGE OF THE PAST 5 YEARS, AND EQUAL TO THE HARVESTED WHEAT ACREAGE IN FRANCE, SPAIN AND PORTUGAL COMBINED.
- FURTHERMORE, TIGHT SUPPLIES HAVE RESULTED IN SUBSTANTIAL INCREASES IN MARKET PRICES OVER THE PAST FEW MONTHS. SINCE THE ANNOUNCEMENT OF THE 1989 PROGRAM, WHEAT PRICES HAVE CONTINUED TO INCREASE.
- EVEN WITH A 10 PERCENT ARP, U.S. WHEAT SUPPLIES AVAILABLE FOR EXPORT IN 1989/90 ARE EXPECTED TO BE LOWER COMPARED WITH THE PRECEDING MARKETING YEAR. THE TARGET PRICES WILL ALSO BE OVER 6 PERCENT BELOW THAT OF 1987/88.

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-- THE U.S. ACTIONS ON SUPPORT PRICES AND ARPS INDICATE THE TRUE DIRECTION OF U.S. POLICY IN AGRICULTURE, AND ARE CONSISTENT WITH OECD AND PUNTE DEL ESTE COMMITMENTS. WE REMAIN FUNDAMENTALLY OPPOSED TO SUPPLY CONTROL MEASURES WHICH AFFECT PRODUCTION AND MARKETING DECISIONS, AND ARE THEREFORE NOT PREPARED TO CONTINUE TO SEVERELY RESTRICT U.S. PRODUCTION WHEN THE RESULT WOULD BE A SHRINKING U.S. PRESENCE IN THE EXPORT MARKET.

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BACKGROUND PAPER  
SECURITY MARKET REGULATION

ISSUE

Is greater international cooperation in the regulation of security markets called for; specifically, is there scope for Summit consideration of how to catalyze the ongoing discussion in this area?

- October market break and banking deregulation efforts in Congress have evoked considerable interest.
- Both issues are contentious at the U.S. political level; regulators disagree over appropriate division of responsibilities.
- Canadian paper raised question of whether greater international cooperation to supervise securities markets is called for.
- Universal banking countries in Europe (permit banking and securities activities in same institution) increasingly critical of countries with "split" systems (U.S. and Japan) that separate banking and certain securities activities.
- U.S., U.K. banking authorities and Bank for International Settlements members have proposed standardized international capital asset requirements for banks.
- There is no specific policy objective that U.S. could achieve at the Summit; meaningful substantive discussion leading to demonstrable progress unlikely.

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POINTS TO BE MADE  
SECURITY MARKET REGULATION

- BELIEVE THAT SUMMIT CONSIDERATION WOULD BE PREMATURE, PROBABLY UNNECESSARY, POTENTIALLY COUNTERPRODUCTIVE.
- FULL ASSESSMENT OF WHAT WENT WRONG AND HOW TO CORRECT PROBLEMS NOT YET FULLY AGREED UPON.
- MAY 16, SUBCABINET U.S. WORKING GROUP ON FINANCIAL MARKETS ANNOUNCED MEASURES UNDER CURRENT LAW TO REDUCE SYSTEMIC RISKS IDENTIFIED DURING MARKET BREAK.
- IN AN INTERNATIONAL CONTEXT, THERE CLEARLY IS SCOPE FOR GREATER COOPERATION, COORDINATION BETWEEN TREASURIES, CENTRAL BANKS, REGULATORY AGENCIES.
- INITIAL ASSESSMENTS IN MULTILATERAL AREA OF WHERE FURTHER WORK IS NEEDED ARE CURRENTLY UNDERWAY AT OECD (IN WP-3, COMMITTEE ON FINANCIAL MARKETS). REGULATORY AGENCIES, CENTRAL BANKS IN G-7 COUNTRIES ALSO HAVE BILATERAL DISCUSSIONS CONCERNING PROBLEM AREAS AND MUTUAL COOPERATION.
- IN MANY COUNTRIES, SECURITIES REGULATORS FALL OUTSIDE TRADITIONAL TREASURY-CENTRAL BANK ORBIT (I.E., SEC, SELF REGULATORY AGENCIES SUCH AS STOCK EXCHANGES, PROVINCIAL AUTHORITIES IN CANADA).
- IF NEED IS FELT FOR HIGHER-LEVEL CONSIDERATION TO CATALYZE DISCUSSION AND INTERNATIONAL COOPERATION, BELIEVE G-7 DEPUTIES OR FINANCE MINISTRIES, POSSIBLY INCLUDING CENTRAL BANK REPRESENTATIVES, SHOULD BE CONSIDERED AS APPROPRIATE VENUE. WAYS WOULD HAVE TO BE FOUND TO INVOLVE SECURITIES REGULATORY AGENCIES. SITUATION DIFFERS COUNTRY BY COUNTRY.
- SUMMIT LEVEL DISCUSSION OF THESE ISSUES IS CLEARLY PREMATURE.

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BACKGROUND PAPER  
ECONOMIC IMPLICATIONS OF SOCIAL PROGRAMS

ISSUE

- Social programs for old age retirement, medical care, disability, welfare, and housing have consumed an increasing share of GNP and government budgets in the G-7 countries over the last 25 years. These expenditures will increase as the population ages. Increased social expenditures will create significant pressures on government budgets and high tax burdens on the working-age population unless we can find ways of restraining their growth.
- Between 1960 and 1985 spending on public pensions increased from an average of 4.8 to 9.3 percent of GDP in the G-7 nations. Public health expenditures by the G-7 nations increased from an average of 2.5 percent of GDP in 1960 to 5.7 percent in 1984.
- Social expenditures have grown partly as a result of factors such as changing demographics and rising health care costs, but mainly they have risen as a result of legislated increases in benefits and entitlements.
- Even without further increases in legislated benefits, demographics will cause large increases in social expenditures.
  - o The fraction of the G-7 population aged 65 and over is projected to rise from an average of 12.5 percent in 1980 to 22.8 percent in 2040. The fraction in the United States is projected to grow from 11.3 percent in 1980 to 19.8 by 2040.
  - o The OECD estimates that, as a share of GDP, there will be a one-third increase in social expenditures in the G-7 nations between 1980 and 2040; with an increase of roughly two-thirds in the United States.
  - o Increases in the ratio of those aged 65 and over to the working population (aged 15-64) mean a heavy financing burden on the working age population if the increased expenditures are financed by taxes in 2040.
- The problem for the future is: how to pay for this? High taxes on the earnings of workers will mean large reductions in work incentives which will impair growth.

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-- We must find cost-effective ways to restrain growth in social expenditures -- relying wherever possible on market incentives -- while financing them in a way that preserves work incentives. The most fundamental solution would be increases in voluntary saving by private individuals.

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