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THE WHITE HOUSE

WASHINGTON

MEMORANDUM OF CONVERSATION

SUBJECT: Opening Session of the 16th Economic Summit
of Industrialized Nations (U)

PARTICIPANTS: George Bush, President of the United States
Richard McCormack, Under Secretary of State
for Economic and Agricultural Affairs

Francois Mitterrand, President of the French
Republic
Jacques Attali, Special Counsellor to the
President of the French Republic

Margaret Thatcher
Prime Minister of the United Kingdom
Nigel L. Wicks, Second Permanent Secretary
to the Treasury

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Helmut Kohl, Chancellor of the Federal
Republic of Germany
Horst Kohler
State Secretary, Ministry of Finance

Brian Mulroney, Prime Minister of Canada
Derek Burney, Ambassador to the United
States

Gullio Andreotti, President of the Council of
Ministers of Italy
Umberto Vattani, Diplomatic Counsellor to the
Prime Minister

Toshiki Kaifu, Prime Minister of Japan
Koji Watanabe, Deputy Minister for Foreign
Affairs

Jacques Delors, President of the Commission
of the European Communities
Pascal Lamy, Chief of Staff to the President

DATE, TIME

AND PLACE:

Monday, July 9, 1990, 2:30 p.m.-4:35 p.m.
Founders Room, Rice University
Houston, Texas

Chancellor Kohl: (Asks detail of schedule.)

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President Bush: Welcome everyone. The main areas of interest for the Summit are: (1) the trade round, where we need to give directions to negotiators and take account of Third World interests. We must break the deadlock on agriculture. (2) USSR: Journalists are asking about aid to USSR. We need to decide how to respond to Gorbachev's letter. He has requested personnel training and help in achieving a market economy. (3) Environment is also an issue. We need to find a consensus on environment. I think we can succeed. (Ø)

In this session we will take up the economic situation and then trade. We'll have more on trade tomorrow. We have an early evening tonight where we'll talk about political issues, including the USSR and China. Tomorrow morning we will finish the discussion on trade and the USSR. We will take up regional political issues over lunch tomorrow. Tomorrow afternoon we will discuss debt and developing countries and the environment. On Wednesday, the final day, we will discuss narcotics and the transnational issues. That is the general outline of work. Does everyone agree? (There were no comments; general assent.) (Ø)

Please be informal and speak without constraints. Let's have a frank exchange of views. We can then present a unified view to the press, but we need a frank private exchange. (U)

Sustained growth is a major achievement. We need to keep an eye on inflation though. And we need growth, too. We have a slight difference of view with the FED. We want more growth, whereas Greenspan is worried more about inflation. We need to find a way to grow without inflation. We also need to get our deficit down. There are obvious political difficulties on taxes, but we need to do something that the markets will regard as serious on the budget. Our decision on a comprehensive approach to our budget has already been helpful in the US-Japan context. (Ø)

Prime Minister Thatcher: Let's lay the big problems on the table. Command economies have crumbled. The Third World is looking at market economies. We have an opportunity to make the 1990s a success. We have an opportunity to consolidate market democracies. (U)

Romania is a counterfeit democracy. Nationalism is emerging in Romania. In the USSR the Soviets are stumbling. They lack a vision. Let's not prop up regimes that have not really changed. This would only help them delay the tough decisions. Our help must be tied to conditions. Credits to the USSR will be used for consumer goods, not for basic restructuring. As a result, the Soviets will wind up with more debt and no real reform. They don't know how to use the resources they have. They need to learn how to transport goods to market. That is the best thing we can do. That places enormous demands on us. (Ø)

Our contribution is to maintain our own economic growth. The market for goods is an example of success. We should generate

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some surpluses. But we cannot ignore inflation. Otherwise we will harm our economies. The German example of sound money is the best. The entire middle class was wiped out in Germany years ago. The Germans will never forget this. They are inoculated against inflation. We in Britain are faced by memories of unemployment with pressure to keep our employment up. And perhaps we do not pay enough attention to inflationary pressures. Fine-tuning in the 1970s was a disaster. Sound policies, not fine-tuning, are the best approach. In the 1980s we have some good examples on how to maintain sustained growth, not the stop and go pattern that emerges from unstable monetary policies. We need to keep our markets open. The 1930s was partly caused by closed markets. (U)

The successful conclusion of the GATT round is vital. At this meeting we need to reach a broad understanding, particularly on agriculture. The power of market is what we need to harness. This is going to be tough, but we need to match our words with deeds of non-protectionism. Protectionism is electorally popular, but it's a disaster. In the long run, the protectionist route will hurt the Third World. What is especially needed is more openness in agriculture. Trade, even more than aid, is needed in the Third World. Our policies on trade have hurt the Third World, while we utter pious comments about more North-South cooperation. We must avoid a relapse into economic blocs in trade and monetary matters. Blocs are dangerous. But three of them are shaping up: the U.S. and Mexico; Europe; Asia. But no trade empires should be set up. We need to keep the whole system intact and open. We need to think about the next GATT round with more on investment, banking, aviation, public procurement, etc. We have lots of work to do. The freest possible trade over the widest possible area requires concessions. All must make concessions. Then we need fresh targets for a new Round. If we don't keep moving forward, we will slip backward. (U)

We must ensure real competition among us. State-owned companies are trying to take over private companies. We don't think that is fair competition. We need to deal with this imbalance of opportunities. The demand on the savings pool is enormous. A fall of savings has occurred in some countries. Eastern Europe will demand even more of our savings. Inflation could rise along with interest rates unless we emphasize savings more. We need to examine tax systems to make sure that we do nothing to tax unduly the productive sector. Japan and Germany have savings in abundance. The U.S. and Britain lack sufficient savings. More work is needed on the environment, e.g. flooding. The IPCC is doing good work. We need to be guided by those scientists. We need to start necessary action. We must keep our institutions flexible. (U)

Eastern Europe wants to maintain some national identity. We must be free to criticize bad governments, particularly in places like Africa and failed past regimes in Eastern Europe. Africa has a one-party system with collective agriculture and economic

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stagnation. Let's be free to criticize African regimes that don't come up to snuff. Let's be like the IMF. (Ø)

We must also improve the training and education of young people for the new age. We must prepare young people for the world of the 21st Century, not just in science, but also in music and cultural matters. Music and computers are intertwined in terms of creative activity. That will be true even more so in the future. Japan is an example of how to train people well. (U)

We must also deal with drugs. We talk about cracking down on drugs. UK naval forces are in the Caribbean. (U)

We have lots of things to be proud about in the past few years. We need to build on them. What have these summits achieved? They have made it easier for all of us to reject short-term expedients in favor of long-term policies. I don't think that we would have been able to fight protectionism successfully without these economic summits. Today the world needs a successful example of the work of the G-7. We need to do something about agriculture at this Summit. (U)

Prime Minister Kaifu: Since the 1975 Summit, common values of democracy and market economics have been developed as themes and policies. We are at an historic turning point in the world. We need to consolidate our gains at this summit meeting. We need to create a vision of the future in economics and politics. The recent world economic experience has been positive. That experience proves that market economics are best. There is no room for complacency. (U)

(1) We need to preserve policy coordination. (2) External payments imbalances have improved. Growth in domestic demand is necessary to improve the situation further. Deficit countries must do their part, too. I want to praise George Bush for his recent tax proposals. I hope that budget deficit reduction continues. (3) Structural adjustment is needed. (4) US and Japan have concluded the SII discussions successfully. All will benefit from these discussions. We hope, too, that the EC will keep its markets open. (5) We need to introduce new rules in world trade. More discipline is needed. We also need to keep an eye on Third World countries. The dynamic Asian economies must be appreciated for their success. Asian cooperation is a good thing. (6) Global environment is another theme. Fifteen years ago, I was at the 1975 Summit which dealt with the oil price crisis. We met the crisis. Today we have new challenges which are environmental in nature. We need to indicate to the world our wisdom and determination to solve the environmental problems. More details will come tomorrow, but we need more balanced awareness of worldwide problems. (U)

President Delors: The US and Japan have shown the way in the past. Now the EC will play a more important role. 1992 has inspired good things in Europe: A new climate, new

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possibilities, and the creation of millions of new jobs. Technical progress has contributed to this job creation. In my view, the burst in technology has triggered a burst of growth. Thanks to financial innovations, there is a wide availability of capital in some places. There is, however, an imbalance of savings and investment. We need to resolve savings and social security problems. We need to act now, because populations are aging. (U)

The manipulation of exchange rates is due to interest rate changes. We rely too much on interest rates for exchange rate stabilization. (U)

420 million new people are coming into a more market-oriented world. There are immense possibilities in Eastern Europe. The G-24 mechanism has been helpful in Eastern Europe. Perhaps someday we can use this mechanism for the USSR. (U)

Indebted countries are in trouble. There has been an immense transfer of capital to the rich countries from the poor countries. There is too much easy money in some places; too little money, in the Third World. That capital imbalance cannot be sustained forever. In this new era, we need to do more about this imbalance. Leaders should think more in the medium term, less in the short term. (U)

Chancellor Kohl: Millions of people are waiting for the message of Houston. In many different areas, we have a function. It is very important that the Summit speak out on the key questions of the time. It's especially important that we note what is happening in Eastern Europe. I appreciate the support that has made reunification possible. (U)

The G-24 has done useful work. All the countries in Eastern Europe are going to be in deep trouble unless they get more help from us. Gorbachev is having his troubles. (U)

Increased indebtedness in the Third World is a serious problem. The open trade system is threatened. Losses in free trade will hurt us all. Environmental problems are serious, too. We must send out a clear signal against drugs. (U)

We are generally well prepared to face the future. We have a good base; economic policy coordination has been useful and successful. We must keep up employment levels, while keeping an eye on potential problems like inflation. We must have sound monetary policy. (U)

Now, regarding the funding of German unity, we will guard against inflation in this process. The picture remains positive. (U)

The GATT round must be concluded successfully. Our negotiators in Geneva must get a signal from us that we expect them to succeed. (U)

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We need to think about our debt policies. We must deal with middle-income debtors. The Paris Club offers possibilities. (U)

On the environment, we want this Summit to say that the absence of scientific certainties is no excuse for inaction on environmental problems. All seek to arrive at the same solution through different paths. We will find common ground. The EC Summit in Dublin found a basis for common action. New scientific data will come gradually, but we must act now in some respects. I am concerned about the Brazilian rain forest. If we wait too long, then these rain forests will be largely gone. We need to act now. We need collective action. We must cooperate with the new Brazilian President on some sort of agreement. By the next summit, we will have to think about coming to an understanding on the Brazilian rain forest problem. (U)

President Mitterrand: I will not repeat what others have said. France is improving constantly in all respects. Inflation is moderate; the currency, sound. We have some unemployment, but this is improving. 600,000 new jobs were created in France in the last couple of years. We were late with youth training programs, and this has hurt us in France. We have increased the money for youth vocational training. (U)

I would note the distinction between creative forces. We should depict people as they should be, not necessarily as they are. But we also need to balance reality and possibilities in people. (U)

Regarding the USSR, if the Soviets were in sound condition and taking the right policies, we could project a happy future for them. Then all would be well. But the fact is otherwise. The place is in a mess. If we wait until things are in good shape there, then we will wait until the place collapses and a new government is in position, one not necessarily better than now. If we do not meet the Soviet Union's immediate needs, there will be no medium-term future. We need to help Gorbachev now. France is prepared to provide aid. (U)

I note Prime Minister Thatcher's critical comments about local leadership in Africa. Tiny elites exist there, and there is no room for multi-parties. There is not enough leadership. Poverty and dictatorships come side-by-side. The colonial system didn't train enough of the elite. France did a bit better than Belgium in this respect. The African people are moving from disaster to disaster. Commodity prices hurt them. (U)

Turning back to the USSR, we can't wait until the reform succeeds. We need to act now. The same is true for Africa. We need to act now. Commodity agreements are needed now. We should follow a case-by-case approach. (U)

On the GATT, we have to deal with what it should be versus what it is. We all want improvements in GATT covering all parts of the international trading system. We all want to open our

markets more to the Third World countries. Agriculture is a big problem. If we fail on agriculture, then we won't succeed in GATT. All of us must reduce our level of agricultural support in a gradual, balanced way. But we need to deal with all forms of subsidies. The same is true of textiles. We need to open our markets. (U)

On drugs. I agree with others who have spoken. Where do we start on the environment? We need to start with something, perhaps forestry. The survival of forests is important. CO₂ emissions are also fundamental. I hope the Houston Summit will define a series of priorities. We need to say that the Amazon forest may go forever unless we act now. (U)

President Andreotti: These summits are useful if we are able to send out a clear message to the public. Precise guidelines need to be issued. I recall the 1980 Summit on oil prices and supplies. We were all wrong with our projections then. We need to be a bit careful in looking at the crystal ball. (U)

We need to extend global assistance to Eastern countries as they move toward market economies. The Soviets face a crisis of generations. The new generation no longer thinks that the old method works. The Dublin meeting resolved a debate on how to deal with the USSR. The EC made decisions. We need to provide timely assistance to the USSR, not just financial help. They need manpower training. Hundreds of thousands of managers need training. There should be bridges between the USSR and the OECD. We have already helped Poland and Hungary. Now we need to help the USSR. We should insist on continued reforms. Soviet aid to Cuba runs counter to our interests. The Soviets also need to settle their problems with Japan. (U)

We must not let Africans think that all of our help will go to Eastern Europe. The Soviets are withdrawing from Africa. Namibia has been a success. Various other positive things have happened in Africa. Mengistu asked us to help settle the war in Ethiopia, perhaps a federal solution is possible. Mozambique is looking at other models. There are many weak governments in Africa. The drug trade could move to Africa. (U)

In the Mediterranean, there are 380 million people. The Arab part is being radicalized. The poor and youth are being influenced. In recent elections in Algeria, the fundamentalists gained ground. Old divisions between left and right could turn into new conflicts involving religious extremists. (U)

Brazil has obvious environmental problems that need attention. Scientific cooperation is needed in dealing with Brazilian rain forest problems. (U)

On drugs, the Summits have produced good results. We have broadened the base of countries that cooperate after Summit decisions. The Financial Actions Task Force is an example. More

work on drugs is needed in the United Nations, but we need to help them coordinate their efforts better. (U)

Regarding Gorbachev's letter, we need to be specific in our response to him. We need to send a message to public opinion also. (U)

Prime Minister Mulroney: Canadian economic policies are orthodox. More is needed in education and literacy. Canada spends more per capita on education than any country except Sweden. But 17 percent of our high school graduates are functionally illiterate. Inflation is down in Canada. Political and constitutional problems are our greatest difficulty; that's for discussion later. (U)

A word about the value of summits. A year ago, we had a remarkable Summit in Paris. Within weeks and months, the Berlin Wall fell. Other good things happened throughout Eastern Europe. At last summit, Mitterrand, Kohl and Thatcher predicted the events in Eastern Europe. We followed policies that helped bring this about over many years. We have now a new summit in Houston with new challenges. President Bush has outlined our agenda. (U)

I have seven points that I wish to make: (1) We need to consolidate the positive things that have happened in Eastern Europe. Chancellor Kohl has been a model of dynamism for the GDR. (2) We need to consider how the G-7 should address the Soviet problem. I would like an economic signal to Gorbachev that will be equally strong as the political signal from the NATO meeting. Gorbachev has asked for our help. He has confessed that his system is obsolete and asked for our support, credit, personnel training, etc. Gorbachev has asked for a G-7 dialogue, a sustained one. I would hope we could say yes to this request. We need a multilateral dialogue with the USSR. An IMF multilateral effort led by a top man should do this. Canadian businessmen have gone to the USSR this year and committed billions of dollars for investment since last November. One business leader complained that he had been given top-level support by Gorbachev personally, but mid-level lethargy has slowed the effort to a crawl. There simply is no mid-level management to make things happen in the USSR. We need to spend some time on how to respond to Gorbachev's letter. (U)

(3) We need to send a strong message on trade as well. Agriculture is deadlocked. Without progress, the Uruguay Round will be a very modest effort. I also support the concept of a world trade organization. (U)

(4) We need to keep an eye on inflation. (U)

(5) We need to look at environmental indicators, Brazilian forest, and global warming. (U)

(6) We need to reassure developing countries that we still care. Third World debt remains a problem. Canada has done some debt forgiveness in the Caribbean. I was nearly lynched when I came home to Canada. Canadians thought it was too much. I am concerned about doing too much on debt forgiveness because of a lack of political support. (U)

(7) The drug problem is getting worse in Canada. (U)

President Bush: At dinner we will talk about the political statement, but also informally talk about the Soviet situation. In addition, the China issue is one we should air together. We need to talk about agriculture tomorrow. I am worried about press reaction to a potential failure of the Summit to reach some understanding on agriculture. (U)

Adjourn at 4:35 p.m.

-- End of Conversation --

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