Toronto summit prescribes bigger austerity-poison dose

by Nicholas F. Benton

While attempting to gloss over the continued unraveling of the global monetary system in the wake of last October's stock market crash, leaders of the seven major non-communist industrialized nations, plus the European Community, produced a document at the conclusion of their annual Economic Summit in Toronto June 21, spelling out in unprecedented detail the "structural reforms" that each participating nation will undertake to better coordinate a global austerity policy aimed at keeping the disintegrating monetary system under a modicum of control.

A so-called "Annex on Structural Reforms" to the final Economic Declaration of the summit provided a nation-by-nation prescription of reform measures both under way and planned that the participants all agreed to. (*EIR* is one of the few publications to provide the complete text for its readers—see box.) For the nations with a trade surplus, the "structural reforms," in general, were designed to "stimulate domestic demand," while for the nations with a trade deficit, like the United States, the reforms were aimed at "reducing domestic demand." Either way, the substance of the measures is austerity, as it was also in the summit's prescription for dealing with the debt of Third World countries.

Combined with the "Annex" itself was an endorsement, in the larger "Economic Declaration," of the surveillance mechanism of the Organization of Economic Cooperation and Development (OECD), overseeing the performance of the participating nations in living up to their commitments to cram austerity measures down their citizens' throats.

Cue for interest rate hikes

The declaration made an inordinate number of references to the need to keep inflation rates down, which will be read by the markets as a signal that leaders are endorsing interest rate increases—the single most volatile factor that could trigger a new crash.

Yet the final communiqué of the summit barely mentioned last October's crash. To the summit leaders, it was merely some "financial strains." Likewise, Reagan, in his press conference at the close of the summit, stumbled over reading a one-line reference to the crash, calling it "the instabilities of last October." It was because the coordination among the summit nations has been so strong, he intimated, that those "instabilities" had "so little impact on our underlying economies."

The surprisingly detailed "Annex" summary was the main tip-off that the attempts to gloss over the crash and the subsequent move of the global economy toward breakdown were a conscious charade. The enumeration of so many case-specific initiatives to bring the global economy into "balance" betrayed the shared view that the time for speaking in generalities was past, and some specific mandates were in order.

The "Annex" could be compared to a "wish list" of optimal policies that would avert an uncontrolled global crash by fine-tuning a coordinated, controlled collapse. They include everything from "strengthening the international competitiveness" of the U.S. industrial sector (i.e., lowering wages), to tax reform in Japan; deregulation, privatization, and reform of the Social Security System in Germany; trade union law reform in Britain; "flexibility in the labor market" in Italy; "financing the economy at the lowest possible cost" in France; liberalization of the financial services sector in Canada; and "improvement of competition policy" in the European Community.

Trade tensions

The list was evidently assembled to try to rein in the centrifugal forces, characteristic of a breakdown crisis, which were churning beneath the superficial calm of the summit.

These forces, powerful enough to snap all the best laid plans of the Group of 7 like so many dry twigs, took the form of growing frustrations and hostilities among member nations about unfair burdens imposed on them by the global austerity strategy—threatening to explode into uncontrolled trade wars.

Even the delegation from the European Community, which is known for bludgeoning European farmers into submission to free market dictates, had to put up a show of hostility to the Reagan administration's call for a so-called "zero option" in agriculture—that is, the end of all agricultural subsidies by the year 2000. EC "Trade Minister" Willy de Clerc said that the policy does not appreciate the fundamental difference between U.S. farmers and those in Europe. In Europe, he pointed out, 7.6 million farmers have less than 10 hectares of land, and are helpless, without supports, against the vagaries of weather and world food price fluctuations. Moreover, de Clerc said, the United States was duplicitous on the issue, granting supports for its own agriculture, such as $1 billion in additional export enhancement funds, while forcing free market reforms on other nations.

EC spokesmen warned that if agricultural issues became a major focus in Toronto, "it will ruin the summit." That did not prevent President Reagan from leading off the opening plenary session by highlighting the importance of his "zero option."

The paragraph in the final communiqué from the summit was a fierce battleground that was altered repeatedly during the final day. The EC lost out in the final version, accepting wording that conceded a "framework approach," that is "in line with long-term goals concerning the reduction of all direct and indirect subsidies," as opposed to the EC preference for "short-term measures," expressed in press briefings throughout the summit.

Similarly, the Japanese voiced repeated concern over whether further integration of the EC, combined with the pending U.S.-Canada free trade accord, would leave them out in the cold as the only nation among the G-7 not in some kind of trading bloc. They worried that they would become victims of "protectionism at the borders" of these other blocs, and did not get any satisfactory assurances to the contrary at the summit.

While the "Annex on Structural Reforms" spelled out the

The austerity dictates

The following is the text of the "Annex on Structural Reforms" issued at the Toronto summit:

1) EUROPE is pursuing structural reforms to complement macroeconomic policies in order to spur job creation, enhance growth potential, and achieve a sustainable pattern of external balances. Structural reform measures are being put into place in the framework of the Communities' program for a unified internal market by 1992; including full liberalization of capital movements; removal of physical, administrative, and technical barriers to allow the full mobility of persons, goods, and services and an improvement of competition policy. However, full achievement will depend on complete and timely implementation of the measures and on complementary policies including those in the fields of regional, social, and environmental policies and of technological co-operation.

2) The main elements of GERMANY'S structural reform and reduction, deregulation and privatization, reform of the postal and telecommunications system, increased flexibility in the labor market, and reform of the social security system.

3) In FRANCE, the main structural reforms will deal with improving the level of education and professional training and development for workers, and with major improvements in the functioning of financial markets in order to facilitate the financing of the economy at the lowest possible cost.

4) ITALY will seek to promote training and education, increase the flexibility of the labor market to spur employment, improve the functioning of financial markets, revise the tax system to promote efficiency and eliminate distortions, and enhance public sector efficiency.

5) In the UNITED KINGDOM, there has already been a substantial program of tax reform, trade union law reform, deregulation, opening up of markets and privatization of state industries. This will continue. Further measures are being introduced to improve both the quality of education and the flexibility of the housing market.

6) JAPAN will pursue structural reforms to support and sustain the greater reliance on domestic demand-led growth which has quickened remarkably. Japan will promote reform of government regulations in key sectors including land use policies and the distribution system, and reform of the tax system.

7) For the UNITED STATES, where recent indications that the declining trend in private savings may have bottomed out are encouraging, it is nonetheless a priority to increase incentives to save. Also the United States will strengthen the international competitiveness of its industrial sector.

8) The most promising areas of structural reform in CANADA are implementation of the second stage of tax reform, the proposed liberalization of the financial services sector, and, most important, the implementation of the Free Trade Agreement with the United States.

details of austerity policies in all the G-7 nations and the EC, the broader "Economic Declaration" of the summit reached further, to make harsh demands upon three other groups of nations: 1) the so-called "newly industrialized countries (NICs)" of Asia, 2) middle-income debtor countries, and 3) the "poorest of the poor" sub-Saharan African countries. The summit leaders stressed that all three groups must play by the rigid rules outlined in their communiqué to keep the fragile world economy together.

- For the NICs, they stressed that "with increased economic importance comes greater international responsibilities." This means that these nations, like Taiwan, South Korea, and the Philippines, must "enter the dialogue and cooperative efforts" to "achieve the international adjustment necessary for sustained, balanced growth of the world economy." That means opening up their economies to austerity measures under international surveillance, the same as all the G-7 nations have.
- For the so-called "middle-income debtor" nations, typified by Brazil, Argentina, and Mexico, the summit leaders insisted on a "market-oriented case-by-case approach," supporting "the recent initiatives taken by the International Monetary Fund to strengthen its capacity to support medium-term programs of macroeconomic adjustment and structural reform." They endorsed the World Bank's role in "promoting adjustment in middle-income countries." This means backing the IMF-World Bank policy of devoting almost all resources to their infamous "conditionalities," carefully-monitored domestic austerity policies that take the name of "structural reforms." The reference to the "case-by-case" approach was in response to U.S. demands that no state funds go to provide debt relief for these nations, since most of their debt is owed to private banks. the so-called "poorest of the poor" nations in sub-Saharan Africa, where most of the media attention was focused during the conference, there was no consensus on how to provide debt relief, because, among other things, the United States refused to write off any debt. Therefore, there was a general endorsement of "easing the burden" of these nations, without being specific, while the IMF was again praised for its role as the controlling and monitoring agency for necessary "structural adjustments."

Closing sections on the environment and bioethics only confirmed the vicious intent behind the summit communiqué. On the environment, "over-intensive use of resources" was attacked—a nasty slap at African farmers who try to optimize yields from dry land.

The summit leaders also issued a joint political statement, which praised President Reagan and Soviet leader Gorbachov for the Intermediate Nuclear Force (INF) reduction treaty, and added, "We now look for deep cuts in U.S. and Soviet strategic offensive arms."

But with the world economy unraveling rapidly out of control, all the best laid plans of the summit leaders had more a ring of desperation than confident mandate.

Settlement for Kampuchea? Not yet

by Linda de Hoyos

"The Kampuchean problem is a lot more complicated, complex, and hard to solve than most great foreign 'experts' and 'specialists' believe," stated Cambodia's Prince Sihanouk in an open letter May 20 from Pyongyang, North Korea. Sihanouk's assessment is a word to the wise to those who believe that the apparent willingness of the Soviet Union, Vietnam, Thailand, and the United States to solve the nine-year old Cambodian conflict will lead to quick results.

Nevertheless, diplomatic events since May 20 have brought the Cambodian conflict to the forefront of Washington and Moscow's agenda for "regional settlements." The stage for recent initiatives around Cambodia was set by talks between U.S. Assistant Secretary of State for Far Eastern Affairs Gaston Sigur and Soviet Deputy Foreign Minister Igor Rogachev in April in Paris, with Cambodia the main issue under discussion. The tempo of events began to quicken when Thai Prime Minister Prem Tinsulanonda visited Moscow May 26 and assured Soviet General Secretary Mikhail Gorbachov that if Moscow used its influence to settle the Cambodian conflict, it would be rewarded by the ASEAN (non-communist) countries of Southeast Asia. Within a few days of Prem's visit, Vietnam announced it wants to pull 50,000 of its troops out of Cambodia this year.

Since then, events have followed apace:

On June 8, Vietnamese Foreign Minister Nguyen Co Thach met in New York at the United Nations with U.S. presidential envoy to Vietnam Gen. John Vessey and U.S. Assistant Secretary of State for Far Eastern Affairs Gaston Sigur. As indicated in columns by Jacques Beckaert in the *Bangkok Post,* Vessey (that is, the Pentagon) has been urging Thach to talk directly to Prince Sihanouk. Vietnam had turned down an offer for dialogue with Sihanouk in April, in the likely belief that China is Vietnam's proper negotiating partner and the Khmer factions—the Vietnamese-backed Phnom Penh government and the resistance coalition of Sihanouk, Son Sann, and the Chinese-backed Khmer Rouge—should talk among themselves. But the Pentagon views direct talks between Vietnam and Sihanouk as "very important." Be-