International Economic Coordination

The continuing objective of Summits is to achieve compatible economic policies that will encourage balanced non-inflationary growth. Even though Summits are not decision-making forums, they have enabled the leaders of the major industrialized democracies to pursue more coordinated and more effective responses to economic problems and to implement credible policies in order to maintain confidence.

At the Tokyo Summit in 1986, recognizing the need for close and continuous coordination of economic policies, Summit leaders formed the Group of Seven Finance Ministers (G-7). The G-7 was charged with the responsibility of improving policy coordination to promote non-inflationary economic growth, strengthening market-oriented incentives for employment and investment, and fostering greater stability in exchange rates.

At their meeting in Paris in February 1987, the G-7 Finance Ministers agreed to promote more balanced global growth and to reduce fiscal and external imbalances. To this end, each country undertook specific commitments for action. Under the so-called Louvre Accord, Japan and the Federal Republic of Germany agreed to stimulate domestic demand, and the United States pledged to reduce its fiscal deficit.

Canada undertook to reduce its federal budget deficit, implement tax and regulatory reform, and pursue trade liberalization bilaterally with the United States and multilaterally within the Uruguay Round. Canadian monetary policy was to be focused on the reduction of inflation while ensuring that the policy was consistent with orderly exchange markets.

The Venice Summit of June 1987 was dominated by a spirit of cooperation and cohesiveness among leaders. They were encouraged by continued, though less rapid, economic growth; by continued low rates of inflation; and by generally reduced interest rates. The strategy adopted by the G-7 in the Louvre Accord was further endorsed at the Summit (and again by the G-7 communiqué of December 1987). Of particular importance to Canada, Summit leaders agreed to strengthen further the role of the G-7 Finance Ministers.

On October 19, 1987, the sudden stock market decline sent a shock wave through the world financial system. The destabilizing imbalances among the United States, Japan, the Federal Republic of Germany, and the newly industrializing economies of Asia (NIEs) resulted from policy misalignments in the early and mid-1980s — when the United States was following expansionary fiscal policies while other countries, particularly the Federal Republic of Germany and Japan, were pursuing tight economic policies.

On the positive side, it is now clear that the international economy has recovered from the October shock better than expected. Most forecasters believe the industrial countries can enjoy a sixth year of moderate growth with low inflation. There are now signs that as a result of exchange rate shifts, the major external imbalances are starting to correct themselves albeit slowly. Japan, and to a lesser extent the Federal Republic of Germany, have taken steps to stimulate domestic demand, while the United States has pursued tighter policies, notably by reducing federal government spending.