

Prime Minister

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MR TURNBULL

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LONDON ECONOMIC SUMMIT 1984: POSSIBLE BRITISH INITIATIVES

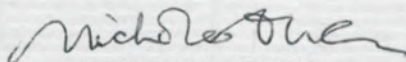
In our capacity as hosts, we have the opportunity to influence the theme and character of the Summit. The discussion on Monday ought therefore to establish a strong theme. We suggest that it should be: making markets work more effectively, nationally and internationally.

Two specific suggestions about the treatment of initiatives flow from this:

(i) Export Subsidies: why restrict the discussion to "export" subsidies? Subsidies to any sector producing tradeable products or services has the same damaging effects on economic efficiency, public expenditure and standards of living. Subsidising inefficient domestic producers prevents tax reductions and strengthens dependent relationships of parts of industry on Government. Subsidies are also a (comparatively) covert form of protectionism, which has increased as tariffs have been reduced. They are a cause of international disputes eg with the USA over steel, agriculture.

There is a tactical case, too for widening this topic. As Sir Robert Armstrong points out in his note, the French are likely to resist a reference in the communiqué to phasing out export subsidies unless mention is made of other forms of subsidy. They have a good point, which it would be in our own interests to meet by including industrial subsidies in general.

(ii) expenditure on social services: the treatment of this subject in the paper is somewhat incongruous. The other topics quite rightly address problems which are inherently international in character; expenditure on social services are more a matter of national preference. A way to link this topic to the general theme suggested above, and to the problem of reducing protectionism, would be to emphasise the role of labour markets - the need to make them work better, to allow more rapid structural changes without driving up unemployment, and its expenditure costs.


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