

S-J to review ✓

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VENICE ECONOMIC SUMMIT

OPENING SESSION

SPEAKING NOTE

Sorry not to be able to be present for the
whole meeting .

Sure you will understand that I cannot be
out of the United Kingdom for long in the
last two days of an Election campaign.

First point to make is that we can be pleased
with the success of economic strategy
followed by the Summit countries over the
past few years.

We have stood for prudent financial management,
free markets and a climate of incentives
and self-reliance.

The results have been

- success in reducing inflation
- sustained growth for at least five years
- and progress in bringing the main
exchange rates into a much more

satisfactory pattern, which has begun to reduce the growth in imbalance.

In our case in the United Kingdom, our economic performance has been transformed.

We are entering our sixth straight year of growth, our average growth rate since 1981 has been higher than any other in Europe, and we have made great gains in productivity.

Our unemployment has been falling steadily for some months, but is still too high. We hope and believe it will fall.

We should, all of us, continue with our basic agreed strategy and reaffirm it in the Economic Declaration from this Summit.

But we also have to look at the prospects for world growth over the next year or two.

At present it looks as if the large imbalances - US deficit, enormous trade surpluses of Japan and Germany - will continue to be a drag on the world economy.

The new pattern of exchange rates which has emerged, with a much more realistic rate for the yen, will help - but not as much as similar changes would in respect of other countries.

Indeed, it looks as though Japan's surplus this year will be very little different from last year.

This is where the basic problem lies: in appropriate domestic policies.

The United States has made a start on the formidable task of reducing the fiscal deficit.

The question is: can it achieve the further big reductions year after year

which are needed?

Spending cuts on an adequate scale are seemingly very hard to achieve.

But as deficits and their associated interest rates cannot go on rising at this rate, there are only two possible courses of action - some cuts in spending, some increases in taxation.

None of us like to increase taxes.

But I would recall that we in the UK found in 1981 that we could not achieve a better fiscal balance by expenditure savings alone, so we did not flinch from some tax

increases.

That set us on the right course and we have subsequently been able to reduce tax rates again.

My own view is that only a package for dealing with the US deficit that includes some tax increase will be wholly convincing to markets.

As regards Japan, the recently announced

package of measures is clearly important.

I hope that Mr. Nakasone will be able to give us his assessment of what impact the

measures are likely to make in reducing
the Japanese trade surplus.

Some estimates which I have seen suggest that it will not be very much.

We also want to see action which will convince the world at large that Japanese markets are going to be genuinely open to

foreign goods and services.

There are still cases, e.g. the classification of whiskies for tax, where the only possible purpose is to keep out Scotch whisky and protect the local product, which cause a great deal of aggravation in our trade relations.

Japan needs to convince others that its actions really will lead to reduction of the external surplus.

I hope very much that Mr. Nakasone - whose personal commitment we all very much admire - will agree to give an explicit undertaking in the Summit Declaration of Japan's readiness to take decisive and sustained measures.

Helmut Kohl has done marvellously well in managing the German economy.

Germany's record of stable growth is indeed enviable.

He is quite right to refuse any action which would significantly increase inflation.

Nonetheless one has the feeling that the German economy is performing below its potential at a time when what the world economy needs from Germany is exactly the reverse.

I hope that Helmut will tell us how far he sees scope for action especially to help the supply side of the economy, which would invigorate the German economy now - for example by bringing forward the tax reforms and reductions already planned or taking action on interest rates.

That of course would be easier to do if he could be confident that action really was going to be taken to reduce the US fiscal

deficit.

Of course the countries which I have singled out are entitled to ask what the rest of us are prepared to do.

I can assure you that, if all goes well on Thursday, the United Kingdom will continue its path of non-inflationary growth, and our efforts to stimulate initiative and enterprise.

But the main point which I want to make is that

the world outside will be looking for political leadership from this Summit to maintain growth in the world economy.

If our final Declaration could contain commitments by the world's three largest economies to take the complementary steps which I have suggested - to which the rest of us would pledge our support - that would have a very significant impact.

It would also demonstrate the reality of our co-operation.

I will devote less time to other issues.

Clearly we must state our strong support for early progress in the GATT negotiations.

Nothing poses a greater danger to the continued health of the world economy than protectionism.

We must press forward with the removal of
trade barriers.

We must also build on the progress we made at

Tokyo on agriculture.

Present policies in all our countries are
unsustainable.

They cost too much.

They disrupt world trade.

They suck jobs out of the rest of our

economies.

They do not even help the farmer anything like as much as is often claimed.

The principles of reform are clear enough:

collective responsibility for present

difficulties - no-one can claim exemption;

the need for concerted action; gradual

reduction in programmes of support for

agriculture; a commitment to immediate

action.

I hope the Summit Declaration will state our collective determination to make the most rapid progress possible in agricultural reform, both at home and in the GATT negotiations.

Finally on debt.

I think that we have to stick to our existing strategy.

There are no quick fixes.

Clearly some of the poorest countries, such as those in Sub-Saharan Africa, face especially difficult problems.

We have proposed a special initiative for them: conversion of aid loans to grants , rescheduling of official debts up to 20 years and a reduction of interest on debt - provided they pursue sound financial and economic policies.

I hope that the Summit can give its
support to these proposals.