

# TREASURY


PO -CH /NL/0003  
PART B

FOR DISPOSAL ADVICE SEE INSIDE COVER

DISPOSAL DIRECTIONS	SIGNATURE	DATE
DESTROY AFTER 25 YEARS	<i>Adunt</i>	25/10/93
PRESERVE		

FILE BEGINS 23.3/87 ENDS 30/9/87

PO -CH /NL/0003



PART B

CHANCELLORS SPEECHES  
1987

SECTION USE ONLY

REFER TO	DATE	REFER TO	DATE
PA(30/9/87)	PAR 25/10/93		

**CLOSED**  
CONTINUED ON:-  
PART C

FOR RECORDS SECTION USE ONLY

CHANCELLOR'S WIND-UP SPEECH, 23 MARCH

INTERESTING DEBATE.

CONGRATULATE HON MEMBER FOR TRURO ON HIS MAIDEN SPEECH.  
HASN'T WASTED MUCH TIME.

DON'T KNOW WHETHER THAT BETRAYS A CERTAIN NERVOUSNESS  
ABOUT THE DURATION OF HIS TENURE HERE; BUT HE CARRIED THE  
WHOLE HOUSE WITH HIM IN HIS SINCERE AND WELL-MERITED  
TRIBUTE TO DAVID PENHALIGON, WHOM WE ALL MISS SO MUCH.

INTERESTING, TOO, FOR THE OPPORTUNITY IT HAS GIVEN TO THE  
RT. HON. MEMBER FOR MONKLANDS EAST AND THE HON MEMBER FOR  
DAGENHAM TO COMPETE FOR THE ~~BELLEAGUERED~~ MODERATE  
CANDIDATURE IN THE BATTLE FOR THE LABOUR LEADERSHIP,  
WHICH CANNOT NOW BE LONG POSTPONED.

VERDICT.

I WOULD GO FOR MONKLANDS - VERY CANNY; HAS SELDOM, IF EVER, SAID ANYTHING. - CERTAINLY NOT TO-DAY.

WHEREAS DAGENHAM HAS SAID A GREAT DEAL, MOST OF IT HIGHLY CRITICAL OF HIS PARTY, AND ALL OF WHICH WE HAVE CAREFULLY KEPT ON FILE FOR FUTURE USE.

ALSO A LITTLE CARELESS . . . . (QUOTE CBS)

TODAY'S DEBATE TAKES PLACE ON A VERY IMPORTANT ANNIVERSARY.

FOR IT WAS EXACTLY 10 YEARS AGO TODAY THAT THE LIB-LAB PACT WAS SIGNED.

THE RHG THE MEMBER FOR CARDIFF SOUTH - IN THE DAYS WHEN HE HAD SOME INFLUENCE OVER THE POLICIES OF HIS PARTY - SUCCEEDED IN RESISTING A CONSERVATIVE MOTION OF NO CONFIDENCE BY STRIKING A DEAL WITH THE RHM FOR TWEEDDALE, ETRICK AND LAUDERDALE.

THIS DEAL ENSURED THAT THE RHG'S GOVERNMENT WOULD DIE A SLOW AND LINGERING DEATH, RATHER THAN A QUICK ONE.

BY THE SAME TOKEN, IT DELAYED THE RETURN TO SANITY IN THE NATION'S FINANCES.

IT IS INTERESTING TO RECALL WHAT SOME LUMINARIES IN OUR POLITICAL LIFE WERE DOING THEN.

A SORT OF "WHERE WERE THEY THEN?" RATHER THAN "WHERE ARE THEY NOW?"

THE RHG FOR PLYMOUTH DEVONPORT WAS LABOUR'S FOREIGN SECRETARY.

THAT VERY MODEL OF A MODERN LABOUR MODERATE, MRS SHIRLEY WILLIAMS, WAS EDUCATION SECRETARY - IN BETWEEN APPEARANCES ON THE GRUNWICK PICKET LINE.

THE RHM FOR SPARKBROOK WAS MINISTER FOR PRICES - A JOB IN WHICH HE FIRST ESTABLISHED HATTERSLEY'S LAW: WHATEVER THE RHG PREDICTS, THE PRECISE OPPOSITE WILL COME TO PASS. INDEED, OF THE LEADING LIGHTS OF THE OPPOSITION TODAY, ONLY TWO WERE ABSENT FROM THE RANKS OF GOVERNMENT THEN. THE RHG THE LEADER OF THE OPPOSITION HAD, WE ARE TOLD, REFUSED OFFERS OF A MINISTERIAL JOB.

I HOPE HE IS NOT REGRETTING HIS DECISION, BECAUSE IT IS DAILY BECOMING CLEARER THAT HE IS MOST UNLIKELY TO GET ANOTHER OPPORTUNITY OF OFFICE.

LONDON

AND THE RHM FOR GLASGOW HILLHEAD HAD ALREADY LEFT THE SINKING SHIP FOR THE FLESH POTS OF BRUSSELS.

OF COURSE, THE RHM IS BACK WITH US NOW, AS JOINT ECONOMIC SPOKESMAN FOR THE SDP AND ITS SUBSIDIARY, THE LIBERAL PARTY.

THE RHG'S 'WHO'S WHO' ENTRY REMINDS US THAT HE IS A MEMBER OF THE ATHENAEUM, BROOKS'S, PRATTS, AND THE REFORM CLUB.

HE IS, PAR EXCELLENCE, SOMEONE WHO BELIEVES THAT THE SOLUTION TO ANY PROBLEM IS TO JOIN A CLUB - ANY CLUB, FROM THE EMS TO OPEC.

TALKING OF CLUBS, LET ME TAKE THIS OPPORTUNITY OF WISHING THE RHG WELL IN HIS NEW AND EXALTED POST OF CHANCELLOR OF OXFORD UNIVERSITY.

A VICTORY HE OWES, IN EQUAL MEASURE, TO THE FIRST-PAST-THE-POST ELECTORAL SYSTEM, AND HIS SEMINAL ADDRESS TO THE STUDENTS OF OXFORD UNIVERSITY EXACTLY ~~FOURTEEN YEARS AGO THIS MONTH~~ ~~SOMEWHERE IN BUSHES~~ ~~IN~~ ~~THE~~ ~~WEST~~ ~~OF~~ ~~ENGLAND~~ ~~?~~ A FEW YEARS AGO.

IN THAT ADDRESS, HE SAID THIS:

## Prospects for Socialism (I)

I WISH TO TAKE the opportunity of setting out my views on the political situation following last week's by-elections. There has been a lot of talk about the formation of a new centre party. Some have even been kind enough to suggest that I might lead it. I find this idea profoundly unattractive. I do so for at least four reasons.

FIRST, I do not believe that such a grouping would have any coherent philosophical base. The idea that my views are closer to the campaign attitude of the Liberal candidate in Chester-le-Street than to those of Mr Giles Radice is manifest nonsense. Nor have they anything in common with the Scottish Nationalist in Dundee. A party based on such a rag-bag could stand for nothing positive. It would exploit grievances and fall apart when it sought to remedy them. I believe in exactly the reverse sort of politics. It is the duty of leaders to seek to synthesize and give reality to people's aspirations, not to separate and exploit their conflicting grudges.

Second, I believe that the most likely effect of such an ill-considered grouping would be to destroy the prospect of an effective alternative government to the Conservatives. Some of those who advocate such a course may find such an outcome perfectly tolerable. I do not. They must not be surprised if those of us who have a firm commitment to radical change receive their advice a little cynically. But that by no means applies to all such advocates. Some genuinely want a new, powerful anti-Conservative force. They would be wise to reflect that it is much easier to will this than to bring it about. The most likely result would be chaos on the left and several decades of Conservative hegemony almost as dismal and damaging as in the twenties and thirties.

Third, I do not share the desire, at the root of much such thinking, to push what may roughly be called the leftward half of the Labour Party, and their supporters in the country, out of the mainstream of British politics. The country today suffers from too much alienation and confrontation. Such a development, if successful, could only fortify this. It would

THIS TEXT by ROY JENKINS M.P., former deputy leader of the British Labour Party, Home Secretary and Chancellor of the Exchequer in the Harold Wilson Government (1964-1970), is perhaps the most effective short speech made by a socialist politician in many years. It was delivered in March to students of Oxford University; and it continues our documentation of "The Prospects of Socialism" begun with Professor Richard Lowenthal's article (ENCOUNTER, January). On the following two pages we publish a report on the German Social Democracy.—ED. NOTE.

be designed to remove from a large and significant section of the nation both the discipline and the benefits of participation in a governing party. It would increase and not diminish the divisions in our society.

Fourth, and more personally, I cannot be indifferent to the political traditions in which I was brought up and in which I have lived my political life. Politics are not to me a religion, but the Labour Party is and always has been an instinctive part of my life. The most moving speech I ever heard was Hugh Gaitskell saying he would "fight, fight and fight again to save the party we love". That was the right message in 1960, and I believe it is still the right message today. I therefore have no desire to seek new combinations. I remember an old piece of doggerel about someone:

"Playing on his fuddled fiddle  
Somewhere in the muddled middle."

I have no fuddled fiddle, and I do not propose to get one.

BUT I BELIEVE there is a lot of fighting to be done. Anyone who is complacent about the state and prospects of the Labour Party today—or for that matter the Conservative Party, but that is not our problem—is just shouting in the dark. Given the record of the Government we ought to be in a dominating position, infused by self-confident enthusiasm. Instead we got an average of 38 per cent of the poll in three seats which have been unvaryingly Labour since 1945. Leave out Lincoln, and our share still fell from 60 per cent at the 1970 general election to 43 per cent today. Nor were there many workers from within the constituencies. There was little spontaneous grass roots enthusiasm. There is something very wrong indeed with an opposition party which in mid-term and in the winter of the Government's discontent cannot do better than this.

The position can and must be drastically improved. I do not believe there will be a general election for 18 months. We are lucky that our weakness is fully matched by that of the Conservative Party. During this time the Labour Party can recover, but only if it learns some lessons from the slide to weakness of the past two years.

The search for scapegoats in the last two weeks has been ludicrous and depressing. It is even said by those who have had almost undisputed control of the party during its decline that it is all the fault of those of us who have throughout wanted a different, more responsible, more consistent approach. This is standing sense on its head.

THEN IT IS ALL THE FAULT of the press. Of course the press has its faults, but that is something with

## "Improvement or—Smash?"

which we have to live. And merely to whine about it is a recipe for self-pity and defeat. If the Labour Party handles itself well it can bring some of the press along with it and laugh at the rest. Roosevelt won election after election with a far more hostile balance of newspapers against him than anything we have in this country.

Then there is the worst excuse of all, the belief that the electorate owes the Labour Party support and that if they do not give it, even when they are deeply disillusioned with the Tories, it is they and not we who are perversely at fault. The electorate is entitled to do what it likes, and it is our duty to earn support. It is also our duty to try to represent the whole of the leftward thinking half of the country and to provide an acceptable alternative government. If we become so narrowly based as to fail in that we are perpetuating the power of Toryism and neglecting our democratic duty. Those who shut their eyes to this, scream "betrayal" and "conspiracy" whenever anything happens which they do not like, and believe they can just bulldoze the voters back into support are making the Gadarene swine look like a group of far-sighted animals.

*WHY IS THERE such widespread public disillusionment with both the major parties? I believe there are three main reasons.*

First, people dislike the conventional slanging matches of politics, and turn away in boredom when they listen to hyperbolic denunciations of the other side for doing what they have a shrewd suspicion the denouncing party would itself be doing if it were in office.

Second, they are deeply cynical about easily made promises which they believe will never be carried out.

Third, they feel that a different language is talked and different standards are applied in politics from those which are regarded as reasonable in ordinary life. For most people politics are only a small part of their lives. Much of the time they are more interested in their families, their gardens, their football clubs—and not a bad thing either. Their standards are made in these activities. If they then see a private world of politics in which things are done quite differently they react with distaste and detachment. If they believe that politics make puppets of us all, this only increases the gap between people and the machines.

*FROM THESE REFLECTIONS I draw another set of three rules which the Labour Party ought to apply in its policy-making and presentation.*

First, is the measure proposed necessary and desirable to create a better society and to serve the interests of the broad range of people we represent?

Second, if included in the programme, is there a good chance that it can be carried out and made to work effectively, bearing in mind both our practical experience in the past as well as our aspirations for the future?

Third, is what we are proposing likely to win, rather than alienate support for the Labour Party, and thus give us the opportunity to do anything at all, as opposed to expatiating in impotence?

*IT IS NOT ALWAYS POSSIBLE to meet all three tests. There may be times when the first and third tests conflict, as may indeed be the case with our commitment, which must be absolute, to racial equality. Where this is so the first test must take first priority. We should certainly not merely search for issues on which to gain easy popularity; there has already been too much of this on all sides of politics in recent years.*

*But any policy proposed ought to be relentlessly scrutinized to meet at least two of the tests, and most ought to meet all three. All too often none of the three are given any serious consideration. It is regarded as more important to solve internal party problems and pay off old scores. It is no accident that this has led to the worst electoral showing by an opposition in the postwar history of British politics.*

*THERE IS IN ADDITION a fundamental point on which we must be clear. Are we offering people the prospect of steady progress towards better living, a fairer distribution and a more idealistic society? Or are we seeking salvation through catastrophe? Do we seek improvement or smash? We can hardly convincingly do both at the same time. The number of people who are prepared to put the country through the needless misery of complete national failure are a tiny minority. They sometimes have an influence disproportionate to their numbers. Unless we make it clear that this catastrophic view in no way affects our policymaking we might as well say good-bye to power for a generation.*

Furthermore, if chaos did come and threaten our democratic institutions I have little doubt that it would be the far right rather than the left who would be the beneficiaries.

Some may not mind. I do, and so I believe do a great majority of the Labour Party members and supporters throughout the country. They want a party with plenty of radical cutting edge but they want it to have responsibility and consistency and to mean what it says. It is time we started talking sense to the British people.

*Roy Jenkins*

I COULD NOT HAVE PUT IT BETTER MYSELF.

AS FOR THE RHG'S CONTRIBUTION TO THIS DEBATE, IT WAS, OF COURSE, THE SAME SPEECH AS HE HAS MADE IN ALL OUR PREVIOUS ECONOMIC DEBATES - LIKE SOME FINE ANTIQUE PIECE OF FURNITURE, THE POLISH IMPROVING AS THE UTILITY DIMINISHES.

THIS YEAR'S BUDGET HAS BEEN WARMLY WELCOMED BY BRITISH INDUSTRY, ON WHOSE PERFORMANCE OUR FUTURE PROSPERITY DEPENDS.

~~THE POUND IS FIRM.~~

INTEREST RATES, WHICH HAD FALLEN 1/2 PER CENT IN ANTICIPATION OF THE BUDGET HAVE SINCE FALLEN A FURTHER 1/2 PER CENT, AND THE BUILDING SOCIETIES HAVE NOW GIVEN NOTICE OF A 1 PER CENT FALL IN THE MORTGAGE RATE.

AND THE POUND REMAINS ~~THE~~ FIRM.



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THIS MEANS, INCIDENTALLY, THAT, TAKING THE INCOME TAX CUT AND THE MORTGAGE RATE REDUCTION TOGETHER, THE BUDGET IS WORTH AN EXTRA £5 OR MORE A WEEK IN TAKE HOME PAY TO A TYPICAL MARRIED COUPLE BUYING THEIR HOME ON A MORTGAGE.

AS FOR THE FALL IN INTEREST RATES GENERALLY, THIS OF COURSE REVERSES THE 1 PER CENT INCREASE IN INTEREST RATES IN OCTOBER.

THE HOUSE WILL RECALL THAT DURING THE PERIOD OF FOREIGN EXCHANGE MARKET TURBULENCE WHICH FOLLOWED THE SOMEWHAT INCONCLUSIVE G5 AND G7 MEETINGS AT THE END OF SEPTEMBER, I AUTHORISED THE BANK OF ENGLAND TO INTERVENE UNUSUALLY HEAVILY IN ORDER TO BUY A BREATHING SPACE THAT WOULD ENABLE ME TO CONFINE THE INTEREST RATE RISE TO 1 PER CENT RATHER THAN THE 2 PER CENT THE MARKET WAS THEN PRESSING FOR.

THE REWARD FOR THIS WAS TO BE ACCUSED BY THE OPPOSITION PARTIES OF HAVING WASTED VAST SUMS OF MONEY.

I CAN NOW TELL THE HOUSE THAT THE DOLLARS THAT WERE SOLD FROM THE RESERVES IN SEPTEMBER AND OCTOBER HAVE SUBSEQUENTLY ALL BEEN REPURCHASED - AT A PROFIT OF SOME TENS OF MILLION OF £S.

SO MUCH FOR WASTING THE TAXPAYERS' MONEY.

MR DEPUTY SPEAKER, ALL BUDGETS ARE EXERCISES IN BALANCE.

*BOTH INSIDE AND OUTSIDE THE HOUSE ON THIS OCCASION IS THAT*  
*IN* WHAT HAS SURPRISED SOME ~~ON THIS OCCASION~~ IS THAT IN STRIKING THE BALANCE I LEANED VERY HEAVILY IN THE

DIRECTION OF PRUDENCE, LIMITING THE REDUCTION OF TAXATION TO WHAT WAS COMPATIBLE WITH A PSBR OF ONLY £3.9 BILLION, OR 1 PER CENT OF GDP.

A PSBR OF THIS SIZE, WHICH WE LOOK TO HAVE SECURED FOR THE FIRST TIME THIS YEAR, REPRESENTS AN IMPORTANT ACHIEVEMENT. *MY RHF MEMBER FOR LOSTHANS ASKED WHY 16?*

*ANS:* NEED TO GET PSBR DOWN TO A LEVEL WHICH, EVEN WITH ZERO INFLATION, WOULD PREVENT PUBLIC DEBT GROWING AS A PERCENTAGE OF GDP.

1 PER CENT DOES THAT: WE ARE THERE, AND FROM NOW ON IT IS ~~MAINLY~~ A MATTER OF CONSOLIDATION.

BUT THIS BUDGET NOT JUST A MATTER OF HAVING ACHIEVED THE SPRING DOUBLE OF SIGNIFICANT TAX CUTS - INCLUDING 2P OFF THE BASIC RATE - AND A SHARP REDUCTION IN PLANNED PUBLIC BORROWING.

WITH THE AUTUMN STATEMENT, IN WHICH I ANNOUNCED A SIZEABLE INCREASE IN PUBLIC SPENDING, <sup>CONCENTRATED</sup> ~~PARTICULARLY~~ IN THE PRIORITY AREAS OF HEALTH AND EDUCATION, IT REPRESENTS AN UNPRECEDENTED AUTUMN AND SPRING TREBLE.

MEANWHILE, THE OPPOSITION PARTIES HAVE BEEN VYING WITH EACH OTHER AS TO HOW THEY WOULD HAVE USED THE MONEY THAT WAS AVAILABLE TO ME.

FOR £3 BILLION, THE LEADER OF THE OPPOSITION INFORMED <sup>THE HOUSE</sup> ~~ME~~ IN HIS RAMBLING REPLY TO THE BUDGET SPEECH, ~~THE~~ A REPLY VERY NEARLY AS LONG AS THE BUDGET SPEECH ITSELF FOR

~~£3 BILLION, HE SAID,~~ I COULD HAVE OBTAINED A COMPUTER FOR EVERY SECONDARY SCHOOL CHILD.

~~RATHER QUANT,~~ MAYBE?

BUT THE REAL POINT IS THIS.

HAD THEY BEEN IN OFFICE, WITH THEIR POLICIES, THEY WOULD NEVER HAVE BEEN IN THAT POSITION IN THE FIRST PLACE.

THE MONEY WOULD NOT HAVE BEEN THERE.

NO CHANCE.

FOR THERE'S NOTHING ~~WICKY~~ <sup>FORTUITOUS</sup> ABOUT IT.

IT'S THE REWARD OF YEARS OF VIGOROUS, HEALTHY GROWTH WITH LOW INFLATION.

AND THAT IS WHAT IS SET TO CONTINUE.

ASSISTED NOT MERELY BY STICKING TO THE OVERALL ECONOMY STRATEGY THAT HAS BROUGHT US THIS SUCCESS, BUT ALSO BY THE NEW MEASURES CONTAINED IN THE BUDGET.

*I CANNOT MENTION THEM ALL; H.F. WORKING (AND OTHERS) CAP GAINS LIFE ASSURANCE; BUT PROFIT RELATED PAY. (CHANNON) BONUSES IN CTTVS PERSONAL PENSIONS. (FORSLER)*

LONDON

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AND THE MEASURES TO HELP SMALL BUSINESS; IN PARTICULAR THE OPTION FOR BUSINESSES WITH A TURNOVER OF UP TO £¼ MILLION - MORE THAN HALF OF ALL TRADERS REGISTERED FOR VAT - TO SWITCH TO CASH ACCOUNTING.

INCIDENTALLY, ON THAT, IN HIS SPEECH IN THE DEBATE ON WEDNESDAY, THE RHM FOR SPARKBROOK SAID:

"WE EQUALLY WELCOME THE CHANGES IN VAT THAT THE CHANCELLOR PROPOSED FOR SMALL BUSINESSES. HOWEVER, WE MUST CONFESS TO BIAS BECAUSE WE PROPOSED THEM ALL IN LAST YEAR'S FINANCE BILL, BUT THE GOVERNMENT VOTED THEM DOWN."

I HAVE TO TELL THE HOUSE THAT THERE IS NOT A SHRED OF TRUTH IN THAT ASSERTION.

(I CHALLENGE HIM TO PROVIDE CHAPTER AND VERSE TO BACK IT UP).

*BUSINESS Resolution No 1 - OPP. instead of vote against*

BUT THEN WE ARE FACED BY THE MOST ILL-INFORMED OPPOSITION I CAN EVER RECALL.

LONDON

AN IRRECONCILABLE ]

THERE IS, OF COURSE, A ~~FUNDAMENTAL~~ DIFFERENCE BETWEEN THE ECONOMIC POLICY OF THE GOVERNMENT AND THAT OF THE PARTIES OPPOSITE.

THEY WOULD SPEND MORE, BORROW MORE, AND TAX MORE THAN WE BELIEVE IS COMPATIBLE WITH A HEALTHY ECONOMY AND A FREE PEOPLE.

THE MAIN DIFFERENCE BETWEEN THE OPPOSITION PARTIES IS THAT THE LABOUR PARTY, WHETHER WISELY OR NOT, HAS BEEN A GREAT DEAL MORE SPECIFIC.

AS MY RT. HON. FRIEND THE CHIEF SECRETARY HAS REVEALED DURING THE COURSE OF THIS DEBATE, ITS FIRM SPENDING PLEDGES AMOUNT TO NO LESS THAN AN EXTRA £34 BILLION A YEAR OF PUBLIC EXPENDITURE.

AND THIS WOULD HAVE TO BE FINANCED SOMEHOW.

IF FROM INCOME TAX, IT WOULD REQUIRE THE BASIC RATE OF TAX TO BE MORE THAN DOUBLED.

PART OF IT, IT SEEMS, WOULD BE FINANCED BY HIGHER BORROWING - SOME £6 BILLION MORE ACCORDING TO RHM SPARKBROOK.

THAT WOULD BE DAMAGING ENOUGH.

BUT IT STILL LEAVES ANOTHER £28 BILLION TO BE FINANCED BY A MASSIVE INCREASE IN TAXATION ON EVERYONE, NOT JUST THE SO-CALLED RICH.

INDEED, THE OPPOSITION COULD NOT HAVE SHOWN THEIR HAND MORE CLEARLY THAN BY THEIR PLEDGE, IF GIVEN THE CHANCE, TO TAKE BACK THE TAX CUTS I HAVE BEEN ABLE TO MAKE IN THIS BUDGET, AS A PRELUDE TO STILL FURTHER IMPOSTS.

THEY HAVE CHOSEN THAT BATTLE GROUND; AND IN THE WEEKS AND MONTHS AHEAD WE ARE MORE THAN HAPPY TO FIGHT ON IT.

BUT LET ME RETURN FOR A MOMENT TO THE OVERALL FRAMEWORK OF ECONOMIC POLICY.

OVER THE PAST 7 YEARS THERE HAS BEEN A VIGOROUS DEBATE IN THIS COUNTRY ABOUT THE CONDUCT OF FISCAL AND MONETARY POLICIES - IN PARTICULAR WHETHER IT WAS POSSIBLE TO HAVE A SUSTAINED RECOVERY OF OUTPUT WITHOUT A FISCAL STIMULUS. THE POST-WAR NEO-KEYNESIAN APPROACH WAS TO TRY TO STIMULATE ECONOMIC PERFORMANCE BY EXPANSIONARY FISCAL POLICY AND ACCOMMODATING MONETARY POLICY WHENEVER THERE WAS ANY SIGN OF WEAKENING GROWTH.

IN PRACTICE IT PROVIDED AT BEST SHORT-TERM GAINS TO OUTPUT AT THE COST OF LONG-TERM TROUBLE: RISING INFLATION AND A SUCCESSION OF FINANCIAL CRISES.



WE TURNED OUR BACK ON THAT APPROACH.

INSTEAD WE HAVE DIRECTED MONETARY AND FISCAL POLICY TOWARDS STEADILY REDUCING INFLATION AND PROVIDING A STABLE FINANCIAL ENVIRONMENT WITHIN WHICH A REINVIGORATED ECONOMY COULD PERFORM.

OUR CRITICS HAVE CONSTANTLY CHANGED THEIR GROUND AS EVENTS HAVE CONFOUNDED THEIR GLOOMY PREDICTIONS.

INITIALLY THEY SAID IT WOULD NOT BE POSSIBLE TO REDUCE INFLATION WITHOUT INCOMES POLICY.

THEY THEN SAID INFLATION WAS ONLY FALLING BECAUSE WE WERE

IN A SELF-PERPETUATING DOWNWARD SPIRAL WHICH MEANT, THE PSBR WOULD GET BIGGER RATHER THAN SMALLER.

*IT WAS ARGUED, THAT THE*

*INTEREST RATES*

THEN WE HAD THE QUESTION "WHERE WILL THE GROWTH COME FROM?" AND THE SUGGESTION THAT IT WAS IMPOSSIBLE TO HAVE STEADY GROWTH CONSISTENT WITH A FALLING BUDGET DEFICIT.

WHEN IT BECAME CLEAR THAT THE ECONOMY WAS GROWING WE WERE WARNED THAT IT WAS A FLASH IN THE PAN AND WOULD PETER OUT.

*SOON*

YEAR AFTER YEAR WE WERE TOLD THAT ALTHOUGH GROWTH THIS YEAR MIGHT BE BETTER THAN EXPECTED, NEXT YEAR IT WOULD SLOW DOWN.

AND THAT IF WE DID HAVE SUSTAINED RECOVERY INFLATION WOULD ROAR AHEAD AGAIN.

AND SO IT WENT ON.

BUT WHAT HAS BEEN THE OUTCOME? SUSTAINED GROWTH AGAINST A BACKGROUND OF FALLING INFLATION.

THE DEBATE ABOUT MONETARY AND FISCAL POLICY SHOULD NOW BE OVER.

GIVEN THE HISTORICALLY LOW BUDGET DEFICITS OF THE PAST TWO YEARS THERE CAN BE NO CLEARER <sup>EVIDENCE OF</sup> ~~PROOF THAN THE~~ <sup>THE BANKRUPTCY OF OUR CRITICS' CASE THAN THE</sup> SUDDENNESS WITH WHICH THOSE WHO ACCUSED US OF STARVING THE ECONOMY OF DEMAND NOW ACCUSE US OF GENERATING EXCESSIVE DEMAND.

THEY WERE WRONG THEN THEY ARE WRONG NOW.

THE FACTS SPEAK FOR THEMSELVES.

WE ARE NOW ENTERING OUR SEVENTH SUCCESSIVE YEAR OF HEALTHY ECONOMIC GROWTH.

THERE HAVE BEEN PERIODS OF GROWTH OF THIS LENGTH BEFORE, BUT THIS IS REMARKABLE FOR ITS STEADINESS - THE STEADIEST GROWTH AT APPROACHING 3 PER CENT A YEAR THAT THE UK ECONOMY HAS KNOWN SINCE THE WAR.

WHEREAS IN THE 1960s AND 1970s, OURS WAS THE SLOWEST GROWING OF THE MAJOR ECONOMIES IN EUROPE, SINCE 1980 WE HAVE GROWN FASTER THAN ALL OUR MAIN EUROPEAN RIVALS.

AND THE CONTRAST HAS NOT STOPPED THERE.

UNDER LABOUR, GROWTH WAS COMBINED WITH INFLATION THAT AVERAGED  $15\frac{1}{2}$  PER CENT OVER THEIR TIME IN OFFICE.

IN OUR FIRST PARLIAMENT, WE BROUGHT IT DOWN TO  $11\frac{1}{2}$  PER CENT, AND SINCE THE LAST GENERAL ELECTION THE AVERAGE HAS BEEN UNDER 5 PER CENT.

MOREOVER, GROWTH IN THIS UPSWING HAS BEEN BALANCED BETWEEN CONSUMPTION AND INVESTMENT.

HONOURABLE MEMBERS OPPOSITE ARE ALWAYS READY TO DELIVER SANCTIMONIOUS LECTURES THAT THE ONLY THING LEADING TO GROWTH IS A CONSUMER BOOM, AND THAT MUCH MORE INVESTMENT IS NEEDED.

THEY SHOULD LOOK AT THE FIGURES.

COMPARING THIS UPSWING WITH THE ONE THAT TOOK PLACE WHEN THEY WERE IN OFFICE, CONSUMERS' EXPENDITURE HAS INCREASED AT ABOUT THE SAME RATE - ABOUT 3 PER CENT.

BUT FIXED INVESTMENT HAS GONE UP BY NEARLY 4 PER CENT IN THIS UPSWING, TWICE THE AVERAGE FOR THE EUROPEAN

COMMUNITY AS A WHOLE, AND FAR AHEAD OF THE 1¼ PER CENT THAT LABOUR ACHIEVED.

AND BOTH THE DTI INVESTMENT INTENTIONS SURVEY, AND THE CBI FORECAST, SHOW <sup>further</sup> STRONG INVESTMENT GROWTH IN 1987.

THIS PICTURE OF A HEALTHY, FLOURISHING ECONOMY DOES NOT ONLY EMERGE FROM THE OFFICIAL STATISTICS.

IT EMERGES FROM LAST MONTH'S CBI TRENDS ENQUIRY, WHICH SHOWED A SHARP IMPROVEMENT IN ORDER BOOKS, EXPORT ORDERS, AND OUTPUT.

AND THE BENEFITS ARE BY NO MEANS CONFINED TO THE SOUTH-EAST, ~~IN~~ IN SPITE OF THE REMARKS OF THE RHM FOR MONKLANDS EAST ABOUT THE ~~SO-CALLED~~ NORTH-SOUTH DIVIDE. CERTAINLY, AS I ACKNOWLEDGED IN OUR DEBATE ON 20 JANUARY, SOME REGIONS OF THE COUNTRY WERE PARTICULARLY HARD HIT BY THE RECESSION.

BUT THOSE REGIONS ARE NOW SHARING IN THE GROWTH OF THE ECONOMY.

THE LATEST SURVEY BY THE ASSOCIATION OF BRITISH CHAMBERS OF COMMERCE - ~~NOT A BODY RENOWNED FOR ITS OVER OPTIMISM~~ - ALSO REPORTS IMPROVED PROSPECTS AND HIGHER BUSINESS CONFIDENCE ALL OVER THE COUNTRY.

AND THE HOUSE HAS HEARD THE SAME STORY IN ~~SOME~~ <sup>MANY</sup> OF THE SPEECHES OF MY HONOURABLE FRIENDS DURING THIS DEBATE.

~~FOR EXAMPLE, MY HF THE MEMBER FOR CORBY, WHICH, AS THE HOUSE WILL KNOW, HAS FACED A VERY DIFFICULT ADJUSTMENT OVER RECENT YEARS, REFERRED TO THE TREMENDOUS GROWTH TAKING PLACE IN HIS CONSTITUENCY, AND THE FURTHER ASSISTANCE WHICH THE BUDGET WOULD BRING.~~

THROUGHOUT THE COUNTRY, UNEMPLOYMENT IS NOW FALLING. INDEED, THE UNEMPLOYMENT RATE HAS FALLEN FASTEST OVER THE LAST 12 MONTHS IN WALES AND IN THE NORTH, AND THE SAME IS TRUE FOR LONG-TERM UNEMPLOYMENT.

YOUTH UNEMPLOYMENT HAS FALLEN IN EVERY REGION OVER THE LAST THREE YEARS, AND FASTEST IN WALES, THE NORTH, THE NORTH WEST AND THE WEST MIDLANDS.

~~TO SAY THAT THIS GOVERNMENT IS DOING NOTHING ABOUT UNEMPLOYMENT IS TO PASS THE POINT...~~

IN MY SPEECH ON 20 JANUARY, I GAVE THE HOUSE SOME FIGURES FOR THE INCREASE IN JOB ADVERTISING IN LEADING PROVINCIAL NEWSPAPERS COMPARED TO A YEAR PREVIOUSLY.

I HAVE MADE FURTHER ENQUIRIES THIS WEEK, WHICH CONFIRM THAT JOB ADVERTISING CONTINUES TO BE HIGHER, IF ANYTHING BY A BIGGER MARGIN THAN TWO MONTHS AGO.

THE "SHEFFIELD STAR", WHICH REPORTED A 50 PER CENT INCREASE IN JOB ADVERTISING IN JANUARY COMPARED TO THE PREVIOUS YEAR SAYS THAT THE INCREASE IS PROBABLY EVEN LARGER NOW.

THE "WOLVERHAMPTON EXPRESS AND STAR" IS PUBLISHING AN AVERAGE OF TEN PAGES OF SITUATIONS VACANT ONCE A WEEK, UP BY 20-25 PER CENT ON LAST YEAR.

THE "LIVERPOOL ECHO", THE "MANCHESTER EVENING NEWS", AND THE "NEWCASTLE EVENING CHRONICLE" ARE ALL REPORTING A MUCH HIGHER LEVEL OF ADVERTISING THAN A YEAR PREVIOUSLY.

*DAGGON WAS*

*TO SAY THAT THIS BUDGET DID NOTHING ABOUT UNEMPLOYMENT IS TO MISS THE POINT. JOBS ARE CREATED BY A THRIVING*

AS USUAL, WHEN FACED WITH GOOD NEWS ABOUT THE ECONOMY, *Economy* THE RHM FOR MONKLANDS EAST MADE A SPEECH IGNORING EVERYTHING EXCEPT MANUFACTURING.

EVEN THERE, HE PRESENTED A VERY SELECTIVE PICTURE.

FOR EXAMPLE, HE IGNORED THE FACT THAT MANUFACTURING OUTPUT FELL DURING HIS PARTY'S PERIOD IN OFFICE.

HE IGNORED THE FACT THAT IT HAS GONE UP 10 PER CENT SINCE WE WERE RE-ELECTED IN 1983, AND IS SET TO RISE BY A FURTHER 4 PER CENT THIS YEAR.

HE FAILED TO MENTION THE RADICAL IMPROVEMENT IN MANUFACTURING PRODUCTIVITY, WHICH HAS GROWN FASTER HERE THAN IN ANY OTHER MAJOR INDUSTRIALISED COUNTRY IN THE 1980s IN STARK CONTRAST TO THE 1960s AND 1970s. HE IGNORED THE FACT THAT MANUFACTURING PROFITABILITY IS HIGHER THAN IT HAS BEEN SINCE 1973.



AND HE IGNORED THE FACT THAT BRITISH MANUFACTURERS HAVE HELD THEIR VOLUME SHARE OF DEVELOPED COUNTRIES' EXPORTS OVER THE PAST 5 YEARS AFTER DECADES OF DECLINE - SINCE THE LAST GENERAL ELECTION, EXPORT VOLUMES ARE UP ABOUT 30 PER CENT.

THE PLAIN FACT IS THAT BRITISH MANUFACTURERS HAVE AN OUTSTANDING OPPORTUNITY IN 1987, WITH EXPORT GROWING FAST, AND A HIGHLY COMPETITIVE POUND.

THERE HAS INEVITABLY BEEN A GOOD DEAL OF ATTENTION PAID TO THE FORECAST THAT THE CURRENT ACCOUNT OF THE BALANCE OF PAYMENTS WILL BE IN DEFICIT BY £2½ BILLION NEXT YEAR. THIS IS NOT SURPRISING, GIVEN THE HALVING OF EARNINGS ON OIL TRADE.

AND, AT ABOUT ½ PER CENT OF GDP, IT WOULD HAVE BEEN WELCOMED IN THE LABOUR YEARS, WHEN THE CURRENT ACCOUNT DEFICIT AVERAGED DOUBLE THAT LEVEL.

£6 BILLION BALANCING ITEM

BUT IN ANY CASE ~~REALLY CAN BE~~  
 A TEMPORARY PAYMENTS DEFICIT OF THIS ~~ORDER~~ ORDER  
 CAN BE FINANCED WITHOUT SLIGHTEST DIFFICULTY  
 GIVEN NET O/S/EAS ASSETS OF > £100 BILLION  
 NO PROBLEM HERE - AS FINANCIAL MARKETS  
 WELL UNDERSTAND, EVEN IF PARTY OP. DOESN'T.

MR DEPUTY SPEAKER, THE ECONOMY IS NOW AS SOUND AND STRONG AS IT HAS BEEN FOR A GENERATION.

IT IS THE STRENGTH OF THE ECONOMY THAT HAS ENABLED US TO ANNOUNCE IN ONE AND THE SAME YEAR HIGHER SPENDING ON PRIORITIES, LOWER PUBLIC BORROWING, AND LOWER TAXATION. MANY GOVERNMENTS HAVE BEEN ABLE TO ACHIEVE ONE OR EVEN TWO OUT OF THE THREE.

BUT NO PREVIOUS GOVERNMENT FOR DECADES HAS SUCCEEDED IN ALL THREE.

IT IS THE STRENGTH OF THE ECONOMY, BASED ON THE POLICIES THIS GOVERNMENT HAS PURSUED SINCE 1979, THAT HAS ENABLED US TO TURN THIS DREAM INTO REALITY.

THIS BUDGET TAKES FORWARD THE POLICIES THAT CREATED THAT STRENGTH.

THAT IS WHY I DESCRIBED IT AS A BUDGET BUILT ON SUCCESS, AND A BUDGET FOR SUCCESS.

ALL THAT WE HAVE HEARD FROM THE OPPOSITION PARTIES ARE PROMISES TO RESTORE POLICIES BUILT ON FAILURE WHICH WOULD BE POLICIES FOR FAILURE.

THEY WILL NEVER GET THE CHANCE TO WREAK THEIR HAVOC ON THE BRITISH ECONOMY AGAIN.

I COMMEND THIS BUDGET TO THE HOUSE.

Sir T. Burns 11/9/2

A, B, C

P7

CHANCELLOR - PRESS BRIEFING PRE IMF, WASHINGTON

Transcript from: tape recording, Stateroom, 11 Downing St, 2 April 1987

CHANCELLOR: .... right, there's room for one or two knights anyway, if not for ordinary mortals. Let me before we - there's an extraordinary story in the Financial Times today. I ... the Financial Times, the same sort of story is to be found in a number of other newspapers. I just picked the Financial Times because it was pink. But it is headed, 'Exchange Rate Targets Set' and "Mr Nigel Lawson, the Chancellor, for the first time yesterday gave specific targets for sterling's exchange rate against the Dmark and the \$. In fact nothing of the sort occurred. .... we have at Neddy what is called a macro economic discussion twice a year. Yesterday was one of those occasions. When we got onto the - I opened the discussion - on the exchange rate. I told them about the Paris accord. I mentioned the exchange rate in exactly the same - policy - in exactly the same terms as I had to the Treasury Select Committee on, what was it, Monday of this week. And then because some members of Neddy are not familiar with what current exchange rates are - I think current exchange rates are probably satisfactory, I informed them in very round terms what the current \$ and deutchmark rates were. And that is all. And so this story is a complete non event. I thought that I'd start by making that clear. How it came to be written in this way is a complete mystery. As for the next few days;

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CHANCELLOR'S SPEAKING NOTE FOR THE DEVELOPMENT COMMITTEE  
APRIL 10, 1987 [MORNING SESSION]

I WELCOME THE FACT THAT, FOR THE FIRST TIME, AGRICULTURE HAS A FORMAL PLACE ON OUR AGENDA. SINCE OUR DISCUSSIONS IN THE DEVELOPMENT COMMITTEE LAST SEPTEMBER THERE HAS BEEN WIDER RECOGNITION OF ITS CRUCIAL IMPORTANCE AMONG WORLD ECONOMIC PROBLEMS. I SAY NOW, AS I SAID IN SEPTEMBER, THAT PERVERSE AGRICULTURAL POLICIES THROUGHOUT THE WORLD "MAY WELL REPRESENT THE GREATEST CHALLENGE OF THE NEXT DECADE".

THE 1986 WORLD DEVELOPMENT REPORT SHOWED SOME OF THE NONSENSSES PRODUCED BY SUBSIDIZING AGRICULTURE IN INDUSTRIAL COUNTRIES AND TAXING IT IN POOR ONES. SINCE THEN THE PROBLEMS HAVE, IF ANYTHING, GOT WORSE. LET ME GIVE SOME ILLUSTRATIONS.

- IN JAPAN, FARMERS RECEIVE AROUND EIGHT TIMES THE WORLD PRICE FOR RICE, SUGAR AND BUTTER; AND

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THEY GROW SO MUCH RICE THAT MUCH OF IT HAS TO BE SOLD AS ANIMAL FEED.

- IN THE EUROPEAN COMMUNITY, FARMERS RECEIVE BETWEEN TWO AND THREE TIMES THE WORLD PRICE FOR SUGAR, BEEF AND BUTTER. HALF OF THE COMMUNITY BUDGET IS DEVOTED TO STORING AND DUMPING SURPLUSES.

- FARMERS IN THE UNITED STATES GET AROUND THREE TIMES THE WORLD PRICE FOR SUGAR AND BUTTER.

THE COST OF ALL THIS INTERFERENCE IS MASSIVE, AND STILL RISING. IT HAS BEEN WELL DOCUMENTED BY THE FUND, THE BANK AND THE OECD. ONE ESTIMATE IS THAT, IN THE EUROPEAN COMMUNITY, THE BURDEN ON EACH FAMILY MAY BE AS HIGH AS \$900 EVERY YEAR, TAKING ACCOUNT OF SUBSIDIES, HIGHER TAXATION, AND HIGHER PRICES. THE FIGURES ARE MUCH THE SAME FOR JAPAN AND THE UNITED STATES. EVEN THE DIRECT BUDGETARY COST OF SUPPORT MEASURES IS VERY HIGH, QUITE APART FROM THE COSTS TO CONSUMERS.

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MORE IMPORTANT FOR THE PRESENT DISCUSSION, THE SYSTEM IS EXACERBATING THE PROBLEMS OF POOR COUNTRIES. THEY HAVE TO COMPETE WITH THESE AND OTHER HIGHLY SUBSIDISED PRODUCTS FROM INDUSTRIAL COUNTRIES. IN SOME CASES WORLD PRICES HAVE BEEN DRIVEN SO LOW THAT IT IS HARDLY WORTH THEIR WHILE TO EXPORT AGRICULTURAL PRODUCE, EVEN THOUGH THEY HAVE A COMPARATIVE ADVANTAGE. THE POOR COUNTRIES HAVE OFTEN MADE MATTERS WORSE BY OVERTAXING THEIR FARMERS OR NOT PAYING THEM THE WORLD MARKET PRICE FOR THEIR PRODUCTS. BUT THEY ARE UNFAIRLY HANDICAPPED BY THE ARTIFICIAL SUPPORT FOR THE PRODUCTS OF INDUSTRIAL COUNTRIES, AND THE BARRIERS RAISED AGAINST THEIR EXPORTS. COUNTRIES WITH SHORTAGES COME ALL TOO EASILY TO DEPEND ON SUBSIDISED IMPORTS. THEY SHOULD BE ENCOURAGED TO GROW THEIR OWN FOOD.

THE COUNTRIES OF SUB-SAHARAN AFRICA ARE PARTICULARLY HARD HIT. THEIR PROBLEMS EMERGED CLEARLY FROM THE UN SPECIAL SESSION ON AFRICA LAST SUMMER. I AM GLAD TO SAY THAT SINCE THEN THERE HAS BEEN A DEVELOPING SENSE OF PARTNERSHIP IN DEALING WITH THEM.

ON THE AFRICAN SIDE, MANY GOVERNMENTS HAVE EMBARKED WITH COURAGE ON THE OFTEN PAINFUL AND PROLONGED

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PROCESS OF ADJUSTMENT TO CHANGE AND ECONOMIC REALITY. THE MEASURES NECESSARY MAY HAVE A FAMILIARITY ABOUT THEM: REALISTIC EXCHANGE RATES, REDUCTION IN PUBLIC EXPENDITURE, CUTTING BACK A BLOATED STATE SECTOR, A SHIFT OF EMPHASIS TOWARDS AGRICULTURE, STREAMLINING AND IMPROVING PUBLIC ADMINISTRATION, PROVIDING A MORE FAVOURABLE CLIMATE FOR THE PRIVATE SECTOR AND MARKETS. BUT FOR COUNTRIES FACED WITH THE HAZARDS OF DROUGHT, WITH LIMITED NATURAL RESOURCES, AND WITH ECONOMIC DEPENDENCE ON A FEW COMMODITIES IN A DIFFICULT TRADING ENVIRONMENT, THE TASK OF RECOVERY IS DIFFICULT BY ANY RECKONING AND ALL THE MORE SO IN A SHORT TIME SCALE.

THERE HAS BEEN SOME PROGRESS. THE POOREST AFRICAN COUNTRIES ENJOYED THEIR FIRST YEAR OF PER CAPITA GROWTH IN 1986 SINCE THE BEGINNING OF THE 1980s, AND ARE EXPECTED TO DO AT LEAST AS WELL IN 1987. I HOPE THE MOMENTUM CAN BE MAINTAINED. BUT A MAJOR OBSTACLE REMAINS THE GROWING AND UNSUSTAINABLE LEVEL OF DEBT.

ON THE INTERNATIONAL SIDE, THERE HAS BEEN A RANGE OF RESPONSES TO ENHANCE AND IMPROVE THE FLOW OF RESOURCES TO THE COUNTRIES CONCERNED. AFTER THE SPECIAL FACILITY FOR AFRICA CAME THE IMF'S STRUCTURAL ADJUSTMENT FACILITY. MOST



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RECENTLY THE EIGHTH REPLENISHMENT OF IDA HAS BEEN CONCLUDED AT A LEVEL OF \$12.4 BILLION, UP TO HALF OF WHICH WILL BE AVAILABLE TO AFRICA. BILATERAL PROGRAMMES HAVE BEEN INCREASED. BRITAIN CONTRIBUTED \$900 MILLION THROUGH ALL CHANNELS IN 1985, OVER 40% OF OUR AID PROGRAMME.

BUT THE RESPONSE HAS NOT YET BEEN EQUAL TO THE PROBLEM. HENCE THE PROPOSALS I MADE YESTERDAY FOR LOOKING AT THE MOST DIFFICULT ISSUE OF ALL: DEBT. I AM GLAD TO SAY THAT THEY HAVE BEEN WIDELY WELCOMED.

AGRICULTURE IS NOT ONLY A PROBLEM OF POOR COUNTRIES WITH THEIR BURDENS OF DEBT. IT IS ALSO THE PROBLEM OF THE INDUSTRIAL COUNTRIES WHO HAVE IT IN THEIR POWER TO CORRECT CURRENT EXCESSES, WHICH IMPOSES A HEAVY BUDGETARY COST, IF THEY HAVE THE WILL TO DO SO.

BRITAIN HAS CONSISTENTLY PRESSED FOR LOWER SUPPORT PRICES WITHIN THE EUROPEAN COMMUNITY, AND SOME PROGRESS WAS MADE IN RESTRAINING SUPPORT FOR DAIRY PRODUCTS AND BEEF UNDER THE BRITISH PRESIDENCY LAST YEAR. WE HAVE ALSO TAKEN ACTION OF OUR OWN TO ENCOURAGE ALTERNATIVE USES FOR FARM LAND. BUT AS I SAID LAST AUTUMN, REAL PROGRESS DEPENDS ON

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MULTILATERAL DISARMAMENT. INDUSTRIAL COUNTRIES - NOT JUST THE EUROPEAN COMMUNITY - MUST REDUCE ALL FORMS OF INTERVENTION, INCLUDING SUBSIDIES.

ONCE THIS PROCESS IS UNDER WAY, THE PRESENT VICIOUS CIRCLE COULD TURN INTO A VIRTUOUS CIRCLE.

- CLOSING THE GAP BETWEEN DOMESTIC AND WORLD PRICES WOULD CUT THE COST OF SUBSIDIES, THUS REDUCING THE BURDEN ON THE REST OF THE ECONOMY.

- FARMERS WOULD ONLY PRODUCE GOODS FOR WHICH THERE WAS A GENUINE DEMAND, RATHER THAN THOSE BOUGHT BY GOVERNMENTS TO ADD TO STOCKPILES.

- POOR COUNTRIES WOULD FIND IT MORE WORTH THEIR WHILE TO EXPORT FARM PRODUCE.

THERE IS I BELIEVE A GROWING CONSENSUS ON THE NEED FOR LONG TERM REFORM OF THIS SORT. BUT WE NEED WIDER AGREEMENT ON THE MECHANISMS FOR REFORM. INDUSTRIAL COUNTRIES WILL BE HOLDING A FURTHER DISCUSSION AT THE OECD MINISTERIAL MEETING NEXT MONTH. IT IS IMPORTANT THAT

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PARTICIPANTS AT NEXT JUNE'S VENICE SUMMIT ALSO DISCUSS THIS ISSUE.

WHILE THE OECD'S WORK HAS BEEN INVALUABLE, IT IS OF COURSE IN THE GATT THAT THE MAJOR NEGOTIATIONS WILL TAKE PLACE. I GREATLY WELCOME THE INCLUSION OF AGRICULTURE IN THE NEW GATT ROUND. WE MUST ENSURE THAT THE PRINCIPLES AGREED IN THE PUNTA DEL ESTE DECLARATION ARE RESPECTED AND THAT WE DO NOT CONCENTRATE ONLY ON TARIFFS AND QUOTAS, BUT DEAL WITH THE UNDERLYING PROBLEMS OF STRUCTURAL SURPLUSES AND DIRECT AND INDIRECT SUBSIDIES.

AGRICULTURE IS OF COURSE THE PRINCIPAL ECONOMIC ACTIVITY OF AID RECIPIENT COUNTRIES. THAT BRINGS ME TO TWO POINTS WELL BROUGHT OUT IN THE PAPERS SUBMITTED BY THE BANK TO US TODAY. DEGRADATION OF THE ENVIRONMENT REPRESENTS A HIGH ECONOMIC COST FOR THE PRESENT AND A STILL HIGHER ECONOMIC COST FOR THE FUTURE. IT BEARS PARTICULARLY HEAVILY ON THE RURAL POOR WHO SUFFER MORE THAN ANYONE FROM THE EFFECTS OF POPULATION PRESSURE, SOIL EROSION, DESERTIFICATION, DEFORESTATION AND WASTE OF THEIR LIMITED ECONOMIC ASSETS. THIS MAY BE PRIMARILY A MATTER FOR THE GOVERNMENTS CONCERNED, BUT THE WORLD BANK CAN MAKE AN

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IMPORTANT CONTRIBUTION, GIVING A LEAD IN THE PLANNING AND EXECUTION OF ITS DEVELOPMENT PROJECTS. GOVERNMENTS OF RECIPIENT COUNTRIES LOOK TO THE BANK FOR ASSISTANCE IN WORKING OUT POLICIES WHICH WILL TAKE PROPER ACCOUNT OF ENVIRONMENTAL FACTORS AND ENCOURAGE THE WISE USE OF NATURAL RESOURCES FOR FUTURE AS WELL AS PRESENT GENERATIONS. I THEREFORE WELCOME THE NEW EMPHASIS WHICH THE BANK IS NOW GIVING TO ENVIRONMENTAL ISSUES. IT IS MATCHED BY OUR OWN.

I ALSO TAKE THIS OPPORTUNITY TO WELCOME THE WORK THE WORLD BANK HAS DONE ON THE IMPACT OF ADJUSTMENT ON THE POOR. ECONOMIC ADJUSTMENT IS ESSENTIAL. IT IS THE ONLY WAY TO RESTORE THE ECONOMIC GROWTH NECESSARY TO ALLEVIATE POVERTY. BUT SPECIAL ATTENTION DOES NEED TO BE GIVEN TO PROTECTING THE POOREST AND MOST VULNERABLE. THE BANK HAS AN IMPORTANT ROLE TO PLAY.

MR. CHAIRMAN, AGRICULTURE IS AT THE ROOTS OF SOCIETY. IN SOME PLACES, WE HAVE SEEN GROSS EXCESS OF PRODUCTION, AND IN OTHERS CRIPPLING SHORTAGE, WITH FAMINE, DAMAGE TO THE ENVIRONMENT AND SPREADING POVERTY. YET MANY OF THE PROBLEMS ARE MANMADE. OVER TIME WE HAVE IT IN OUR POWER TO PUT THINGS RIGHT. LET US NOW MAKE A START TO DO SO.

FW Only  
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CHANCELLOR'S SPEAKING NOTE FOR THE INTERIM COMMITTEE  
9 APRIL 1987

WORLD ECONOMIC OUTLOOK

LET ME BEGIN BY EXTENDING A WARM WELCOME TO  
THE FUND'S NEW MANAGING DIRECTOR, MICHEL CAMDESSUS.

FOLLOWING IN THE IMPRESSIVE FOOTSTEPS OF HIS  
PREDECESSOR AND COMPATRIOT, JACQUES DE LAROSIERE, WILL  
NOT BE EASY.

BUT HIS EXPERIENCE AND PERFORMANCE AT THE  
TOP OF THE FRENCH TREASURY, AS CHAIRMAN OF THE PARIS  
CLUB, AND AS GOVERNOR OF THE BANK OF FRANCE, MAKE HIM  
EMINENTLY QUALIFIED FOR THIS DIFFICULT JOB, AND I WISH  
HIM WELL.

THIS AFTERNOON I HOPE TO DISCUSS THE DEBT  
PROBLEM, AND WILL PROPOSE A NEW APPROACH TO HELP THE  
VERY POOREST DEBTOR COUNTRIES OF SUB-SAHARAN AFRICA.

THIS MORNING, I SHALL DEVOTE MY REMARKS TO THE PROSPECTS FOR THE WORLD ECONOMY AS A WHOLE.

AS A NUMBER OF SPEAKERS HAVE ALREADY EMPHASISED, OVER THE PAST YEAR THE WORLD ECONOMY HAS NOT FULLY LIVED UP TO EARLIER EXPECTATIONS. A YEAR AGO, THE FUND STAFF WERE LOOKING TO 3 PER CENT GROWTH IN OUTPUT FOR THE INDUSTRIALISED COUNTRIES IN 1986, FOLLOWED BY 3 1/4 PER CENT GROWTH IN 1987. THEY NOW ESTIMATE THAT THE GROWTH OUTTURN FOR 1986 WAS 2 1/2 PER CENT AND HAVE REVISED THEIR 1987 FORECAST DOWN TO 2 1/4 PER CENT.

AS IT HAPPENS, TAKING 1986 AND 1987 TOGETHER, THE UK IS ONE OF THE FEW MAJOR COUNTRIES THAT IS OUTPERFORMING THE FUND'S GROWTH FORECASTS MADE A YEAR AGO. AND THE COMBINATION OF SUSTAINED GROWTH AND A STRENGTHENING OF PUBLIC FINANCES ENABLED ME TO CUT BOTH TAXES AND PUBLIC SECTOR BORROWING IN MY BUDGET LAST MONTH. THE UK IS CURRENTLY EXPERIENCING BOTH STEADY GROWTH OF DOMESTIC DEMAND AND VIGOROUS GROWTH OF EXPORTS.

BUT WHY HAS THIS OVERALL PERFORMANCE SHORTFALL OCCURRED? WHAT 1986 AND 1987 HAVE IN COMMON IS THAT THEY HAVE BOTH BEEN PROFOUNDLY AFFECTED BY SHOCKS TO THE WORLD ECONOMY WHICH HAVE INEVITABLY CREATED PROBLEMS OF ADJUSTMENT.

IN 1986, IT WAS THE EFFECTS OF THE COLLAPSE OF OIL AND COMMODITY PRICES THAT DOMINATED THE PICTURE. DOMESTIC DEMAND IN THE MAJOR INDUSTRIAL COUNTRIES GREW BY 3 1/2 PER CENT - MUCH AS EXPECTED. THE SHORTFALL IN WORLD OUTPUT GROWTH WAS CAUSED BY A WEAKENING IN THE IMPORTS OF THE OIL AND COMMODITY PRODUCERS, WHO WERE OBLIGED TO RESPOND RAPIDLY TO THEIR REVENUE LOSS.

IN 1987, THE CENTRAL PROBLEM IS THE DIFFICULTIES OF ADJUSTING TO THE SHARP DEPRECIATION OF THE DOLLAR. IN PARTICULAR, THERE ARE CLEAR SIGNS THAT, AS A RESULT, DOMESTIC DEMAND IN THE MAIN INDUSTRIAL COUNTRIES IS SLOWING; THAT APPEARS TO BE THE MAIN REASON FOR THE REVISION TO THE FORECAST.

AB

IN THEORY, THE MASSIVE EXCHANGE RATE REALIGNMENT THAT HAS TAKEN PLACE SHOULD SIMPLY MEAN A REALLOCATION OF DOMESTIC DEMAND WITHIN THE INDUSTRIALISED COUNTRIES - WITH LESS IN THE US AND MORE IN JAPAN AND GERMANY. TO COMPENSATE, EXTERNAL DEMAND IN THE US SHOULD BE STRENGTHENING RELATIVE TO THAT IN JAPAN AND GERMANY. FOR THE INDUSTRIALISED COUNTRIES AS A WHOLE, DOMESTIC DEMAND AND OUTPUT SHOULD BE UNAFFECTED. IN PRACTICE, OF COURSE, IT IS MORE DIFFICULT THAN THAT. SUCH LARGE ADJUSTMENTS RARELY HAPPEN SMOOTHLY, AS WE SAW IN THE AFTERMATH OF THE OIL AND COMMODITY PRICE CHANGES. TO BE MORE SPECIFIC, JAPAN AND GERMANY ARE EVIDENTLY HAVING SOME DIFFICULTY IN SUCCESSFULLY ADJUSTING THE ORIENTATION OF THEIR ECONOMIES TOWARDS DOMESTIC DEMAND; WHILE THE US IS FINDING THE REORIENTATION TO EXTERNAL DEMAND A FRUSTRATING PROCESS. THIS FRUSTRATION, I MAY ADD, LEADS ALTERNATELY TO CALLS FOR FURTHER EXCHANGE RATE DEPRECIATION AND FOR PROTECTION. BOTH ARE FALSE TRAILS, WHICH WOULD ONLY SERVE TO MAKE THE SITUATION FAR WORSE.



IT WILL INEVITABLY TAKE TIME TO CORRECT PRESENT CURRENT ACCOUNT IMBALANCES. THEY HAVE BUILT UP OVER MANY YEARS. DURING THE YEARS OF DOLLAR APPRECIATION, US DOMESTIC DEMAND GREW BY ABOUT 1 PER CENT A YEAR MORE THAN GDP - AND IN JAPAN AND GERMANY, WE SAW THE MIRROR IMAGE. IT WILL TAKE TIME TO UNWIND THAT PROCESS. WE NEED SEVERAL YEARS OF GRADUAL ADJUSTMENT, WITHOUT ANY LET-UP, IF WE ARE TO COMBINE STEADY GROWTH WITH A CORRECTION OF THE PAYMENTS IMBALANCES.

THE SURPLUS COUNTRIES NEED TO SUSTAIN THE GROWTH OF DOMESTIC DEMAND AT A RATE SIGNIFICANTLY FASTER THAN THE GROWTH OF OUTPUT THEY EXPECT TO ACHIEVE IN THE MEDIUM TERM. BUT, EQUALLY IMPORTANT, THEY MUST PROMOTE THE GROWTH OF TRADE AND OPEN MARKETS TO THE REST OF THE WORLD. THIS IS CRUCIAL IN ECONOMIC, POLITICAL AND MARKET TERMS ALIKE. IF MORE OF THE ADJUSTMENT IN SURPLUS COUNTRIES TAKES PLACE THROUGH ENHANCED ACCESS TO MARKETS, WE WILL SEE LESS UNDESIRABLE MARKET PRESSURE ON EXCHANGE RATES AND LESS

EQUALLY UNDESIRABLE POLITICAL PRESSURE IN DEFICIT COUNTRIES FOR ACTION TO PROTECT THEIR MARKETS.

MEANWHILE, DURING WHAT IS BOUND TO BE AN EXTENDED PHASE OF ADJUSTMENT, THERE IS AN OVERWHELMING CASE FOR A PERIOD OF EXCHANGE RATE STABILITY, BECAUSE THE SHORT RUN EFFECTS OF DEPRECIATION ARE ADVERSE - THE FAMILIAR J-CURVE - IT IS IMPORTANT TO WAIT TO SEE MORE OF THE EFFECTS OF THE REALIGNMENT THAT HAS OCCURRED WORK THROUGH BEFORE JUMPING TO CONCLUSIONS ABOUT THE NEED FOR FURTHER REALIGNMENT. ALTHOUGH WE CANNOT BE SURE THAT WE NOW HAVE PRECISELY THE CORRECT ALIGNMENT OF EXCHANGE RATES THAT, IN THE LONG RUN, IS CONSISTENT WITH CURRENT ACCOUNT BALANCE, WE CAN BE QUITE SURE THAT REPEATED DOSES OF DEPRECIATION WILL SIMPLY PROLONG THE ADVERSE EFFECTS OF THE J-CURVE AND LEAD TO AN OVERSHOOT IN THE OPPOSITE DIRECTION, THAT IS THE LAST THING WE WANT TO SEE. I AM, THEREFORE, VERY PLEASED THAT YESTERDAY THE MAJOR INDUSTRIAL COUNTRIES WERE ABLE TO AGREE TO A FULL-HEARTED CONTINUATION OF THE PARIS AGREEMENT TO STABILISE EXCHANGE RATES.

BUT IS IS NOT ENOUGH SIMPLY TO SET OUT OBJECTIVES FOR INCREASED EXCHANGE RATE STABILITY. IF WE WILL THE ENDS WE MUST WILL THE MEANS. IT IS SOMETIMES ARGUED THAT GREATER EXCHANGE RATE STABILITY REQUIRES MORE COMPATIBLE POLICIES - BOTH FISCAL AND MONETARY - AND THEREFORE THE EMPHASIS SHOULD BE ON POLICY COORDINATION. THERE IS MUCH TRUTH IN THAT ARGUMENT. BUT AN EFFECTIVE COMMITMENT TO STABLE EXCHANGE RATES CAN ITSELF BE AN IMPORTANT DISCIPLINE TO ENCOURAGE COMPATIBLE POLICIES. IT MAY BE NO GUARANTEE OF COMPATIBILITY, BUT IT EXERCISES POWERFUL PRESSURE IN THE RIGHT DIRECTION.

WHAT THIS MEANS IS THAT EVEN THE LARGEST COUNTRIES HAVE TO BE PREPARED TO GIVE A SUBSTANTIAL WEIGHT TO EXCHANGE RATE OBJECTIVES IN THEIR CONDUCT OF DOMESTIC POLICY - IN PARTICULAR, MONETARY POLICY. OBVIOUSLY, IT IS DESIRABLE TO AVOID EXCESSIVE VOLATILITY IN INTEREST RATES AND DOMESTIC MONETARY CONDITIONS IN INDIVIDUAL COUNTRIES AND IN THE AGGREGATE. AT THE SAME TIME, WE MUST AVOID ANY TENDENCY TOWARDS EITHER AN INFLATIONARY OR

DEFLATIONARY BIAS FOR THE INDUSTRIALISED COUNTRIES AS A WHOLE. THIS UNDERLINES THE IMPORTANCE OF EXAMINING THE PERFORMANCE OF THE MAIN INDUSTRIALISED COUNTRIES AS A GROUP ON A ROUTINE BASIS.

I CONCLUDE, MR. CHAIRMAN, WITH THIS THOUGHT, THE MAIN PRINCIPLE OF SOUND ECONOMIC MANAGEMENT IS TO GET THE POLICIES RIGHT WITHOUT DELAY AND THEN STICK TO THEM EVEN THOUGH IT MAY TAKEN AN UNCOMFORTABLY LONG TIME TO SEE THE RESULTS. THAT IS WHAT WE HAVE TO DO.

CHANCELLOR'S SPEAKING NOTE FOR THE INTERIM COMMITTEE  
THURSDAY, APRIL 9, 1987

DEBT

IT IS NOW NEARLY 5 YEARS SINCE THE DEBT CRISIS BROKE. THESE MEETINGS PROVIDE AN OPPORTUNITY TO TAKE STOCK OF HOW WE HAVE COPEDED WITH IT, AND HOW POLICY SHOULD DEVELOP IN THE FUTURE.

IN 1982 THE POSITION WAS VERY SERIOUS INDEED. THE CREDIT STANDING OF MANY DEVELOPING COUNTRIES PLUMMETED, THERE WERE WORRIES ABOUT THE STABILITY OF THE INTERNATIONAL BANKING SYSTEM AND ABOUT THE POSSIBLE REPERCUSSIONS ON THE WORLD ECONOMY ITSELF.

THE IMMEDIATE NEED WAS TO BUY TIME, WITH THE AIM OF PUTTING THE FINANCES OF DEVELOPING COUNTRIES ON A SOUNDER FOOTING, AND REDUCING THE VULNERABILITY OF THE BANKING SYSTEM.

OVER THE PAST 4½ YEARS, A GOOD DEAL HAS BEEN ACHIEVED.

- MANY DEBTOR COUNTRIES HAVE IMPLEMENTED REFORM PROGRAMMES, AND ARE NOW PURSUING POLICIES WHICH WILL

LEAD TO A SUSTAINABLE SOLUTION TO THEIR DEBT PROBLEMS. IN PARTICULAR, A NUMBER HAVE COME TO APPRECIATE THE BENEFITS OF LETTING MARKETS WORK MORE FREELY, AND OF BRINGING THEIR BUDGET DEFICITS UNDER CONTROL.

- THE INTERNATIONAL INSTITUTIONS HAVE BECOME MORE CLOSELY INVOLVED. THE FUND HAS PLAYED AN IMPORTANT ROLE IN STRESSING THE NEED FOR COUNTRIES TO PURSUE MORE SUSTAINABLE POLICIES, AND THE WORLD BANK HAS EXPANDED ITS ACTIVITIES.
- THE BANKING SYSTEM IS IN BETTER SHAPE, AS BANKS HAVE STRENGTHENED THEIR CAPITAL BASE AND INCREASED DEBT PROVISION.

AND THE WORLD ECONOMY IS HEALTHIER THAN IN 1982. GROWTH IN THE MAJOR SEVEN COUNTRIES HAS AVERAGED 3½ PER CENT A YEAR SINCE THEN, COMPARED WITH LESS THAN 2½ PER CENT IN THE PREVIOUS DECADE, AND INFLATION IN 1986 AVERAGED SOME 5 POINTS LOWER THAN IN 1982.

3A

I RECOGNISE THAT MANY DEVELOPING COUNTRIES HAVE SUFFERED FROM THE MARKED FALL IN COMMODITY PRICES, WITH SOME ACUTELY AFFECTED BY THE COLLAPSE OF THE OIL PRICE, BUT MOST HAVE STOOD TO BENEFIT FROM THE FASTER GROWTH OF IMPORTS INTO OECD COUNTRIES. THE COST OF SERVICING DEBT HAS BEEN REDUCED BY THE FALL IN DOLLAR INTEREST RATES, WHICH ARE NOW 6 POINTS LOWER THAN IN 1982. CONTINUED GROWTH IS FORECAST IN BOTH GNP AND TRADE FOR THE MAJOR COUNTRIES.

THUS IT IS CLEAR THAT THE ORIGINAL STRATEGY ADOPTED IN 1982 HAS ACHIEVED AT LEAST ITS IMMEDIATE OBJECTIVES. THE QUESTION IS HOW WE TAKE IT FORWARD.

LET US NOT DELUDE OURSELVES. THE DEBT PROBLEM REMAINS ACUTE.

- THE RATIO OF DEBT TO EXPORTS IN THE BAKER 15 COUNTRIES HAS RISEN, FROM 270 PER CENT IN 1982 TO 343 PERCENT LAST YEAR, AND IN SPITE OF THE FALL IN INTEREST RATES, THE RATIO OF INTEREST PAID TO EXPORT EARNINGS HAS DECLINED ONLY SLIGHTLY.

- THE RATIO OF DEBT TO GDP HAS ALSO RISEN, FROM 42 PER CENT IN 1982 TO 50 PER CENT LAST YEAR.
  
- CAPITAL FLIGHT, WHICH INEVITABLY DAMAGES THE GROWTH PROSPECTS OF THE DEBTOR COUNTRIES, DOES APPEAR TO HAVE REDUCED IN SCALE RECENTLY, BUT IT IS STILL RUNNING AT A HIGH LEVEL. THE IMF HAVE ESTIMATED THAT IT AVERAGED SOME \$16 BILLION A YEAR IN THE PERIOD 1983-85.
  
- THESE PROBLEMS HAVE BEEN REFLECTED IN THE GREATER DIFFICULTY WHICH THE FUND HAS HAD IN PUTTING TOGETHER ITS PROGRAMMES, AND IN THE RELUCTANCE OF THE BANKS TO PROVIDE NEW MONEY.

I AM NOT SAYING THAT THE PRESENT DEBT STRATEGY IS MISCONCEIVED: INDEED I BELIEVE WE SHOULD PERSEVERE WITH IT. CLEARLY THERE IS NO EASY WAY FOR THE DEBTOR COUNTRIES TO RETURN TO GENUINE CREDITWORTHINESS. PROVIDING THEM WITH NEW FINANCE WITHOUT ANY CHANGES IN THEIR POLICY STANCE WOULD BE COUNTER-PRODUCTIVE--THAT IS HOW THE DEBT CRISIS AROSE IN THE FIRST PLACE. AND WE CANNOT SIMPLY RELY ON A FURTHER IMPROVEMENT IN



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SECOND, WE MUST ALLOW LONGER REPAYMENT PERIODS--OF UP TO TWENTY YEARS--WHEN WE ARE RESCHEDULING OTHER OFFICIAL LOANS TO THOSE COUNTRIES, PROVIDING THAT THEY THEMSELVES ARE PURSUING APPROPRIATE DOMESTIC POLICIES. AND WE SHOULD CONSIDER GENEROUS GRACE PERIODS BEFORE CAPITAL REPAYMENTS ARE DUE. THESE PROPOSALS ARE ALREADY UNDER DISCUSSION IN THE PARIS CLUB, AND THE GOVERNMENT OF THE UNITED KINGDOM HAS GIVEN THEM ITS FULL SUPPORT.

BUT THOSE TWO PROPOSALS ALONE WILL NOT BE ENOUGH. THE KEY PROBLEM FOR MANY COUNTRIES IS THAT THE INTEREST PAYMENTS ON THEIR DEBT ARE TOO HIGH, THE INTEREST IS THEREFORE CAPITALISED, SO THAT THE TOTAL DEBT INCREASES EXPONENTIALLY. MY THIRD PROPOSAL IS THEREFORE THAT CREDITOR COUNTRIES SHOULD JOIN TOGETHER TO REDUCE THE INTEREST RATE ON THE DEBT TO A FEW POINTS BELOW MARKET LEVELS, TO GIVE THESE VERY POOR COUNTRIES THE CHANCE TO START TO REDUCE THEIR OVERALL BURDEN--IN SHORT, TO PROVIDE THEM WITH SOME LIGHT AT THE END OF THE TUNNEL. BUT I MUST MAKE IT CLEAR THAT THIS RELIEF SHOULD APPLY ONLY WHERE THE DEBTOR COUNTRIES ARE IMPLEMENTING APPROPRIATE REFORM POLICIES.

THIS THREE-POINT PLAN IS A RECOGNITION OF REALITY. IT OFFERS THOSE SUB-SAHARAN AFRICAN COUNTRIES WITH THE BIGGEST PROBLEMS THE BEST HOPE OF MAKING REAL PROGRESS IN REDUCING THEIR DEBT BURDEN, AND ASSISTING THEIR ECONOMIC DEVELOPMENT. IT WILL ONLY SUCCEED IF ALL CREDITOR COUNTRIES AGREE TO ACT TOGETHER. THE UNITED KINGDOM GOVERNMENT WILL BE WORKING TO ACHIEVE THIS.

As delivered

RS

(P7)

CHANCELLOR'S SPEAKING NOTE FOR THE INTERIM COMMITTEE

9 APRIL 1987

12.11

WORLD ECONOMIC OUTLOOK

LET ME BEGIN BY EXTENDING A WARM WELCOME TO THE FUND'S NEW MANAGING DIRECTOR, MICHEL CAMDESSUS.

FOLLOWING IN THE IMPRESSIVE FOOTSTEPS OF HIS PREDECESSOR AND COMPATRIOT, JACQUES DE LAROSIERE, WILL NOT BE EASY.

BUT HIS EXPERIENCE AND PERFORMANCE AT THE TOP OF THE FRENCH TREASURY, AS CHAIRMAN OF THE PARIS CLUB, AND AS GOVERNOR OF THE BANK OF FRANCE, MAKE HIM EMINENTLY QUALIFIED FOR THIS DIFFICULT JOB, AND I WISH HIM WELL.

THIS AFTERNOON I HOPE TO DISCUSS THE DEBT PROBLEM, AND WILL PROPOSE A NEW APPROACH TO HELP THE VERY POOREST DEBTOR COUNTRIES OF SUB-SAHARAN AFRICA.

341/4/21

THIS MORNING, I SHALL DEVOTE MY REMARKS TO THE PROSPECTS FOR THE WORLD ECONOMY AS A WHOLE.

AS A NUMBER OF SPEAKERS HAVE ALREADY EMPHASISED, OVER THE PAST YEAR THE WORLD ECONOMY HAS NOT FULLY LIVED UP TO EARLIER EXPECTATIONS. A YEAR AGO, <sup>for example</sup> THE FUND STAFF WERE LOOKING TO 3 PER CENT GROWTH IN OUTPUT FOR THE INDUSTRIALISED COUNTRIES IN 1986, FOLLOWED BY 3 1/4 PER CENT GROWTH IN 1987. THEY NOW ESTIMATE THAT THE GROWTH OUTTURN FOR 1986 WAS 2 1/2 PER CENT AND HAVE REVISED THEIR 1987 FORECAST DOWN TO 2 1/4 PER CENT.

AS IT HAPPENS, TAKING 1986 AND 1987 TOGETHER, THE UK IS ONE OF THE FEW MAJOR COUNTRIES THAT IS OUTPERFORMING THE FUND'S GROWTH FORECASTS MADE A YEAR AGO. AND THE COMBINATION OF SUSTAINED GROWTH AND A STRENGTHENING OF PUBLIC FINANCES ENABLED ME TO CUT BOTH TAXES AND PUBLIC SECTOR BORROWING IN MY BUDGET LAST MONTH. THE UK IS CURRENTLY EXPERIENCING BOTH STEADY GROWTH OF DOMESTIC DEMAND AND <sup>A</sup> VIGOROUS <sub>^</sub> GROWTH OF EXPORTS.

BUT WHY HAS THIS OVERALL PERFORMANCE SHORTFALL OCCURRED? WHAT 1986 AND 1987 HAVE IN COMMON IS THAT THEY HAVE BOTH BEEN PROFOUNDLY AFFECTED BY SHOCKS TO THE WORLD ECONOMY WHICH HAVE INEVITABLY CREATED PROBLEMS OF ADJUSTMENT.

IN 1986, IT WAS THE EFFECTS OF THE COLLAPSE OF OIL AND COMMODITY PRICES THAT DOMINATED THE PICTURE. DOMESTIC DEMAND IN THE MAJOR INDUSTRIAL COUNTRIES GREW BY 3 1/2 PER CENT - <sup>VERY</sup> MUCH AS EXPECTED. THE SHORTFALL IN WORLD OUTPUT GROWTH WAS CAUSED BY A WEAKENING IN THE IMPORTS OF THE OIL AND COMMODITY PRODUCERS, WHO WERE OBLIGED TO RESPOND RAPIDLY TO THEIR REVENUE LOSS.

IN 1987, THE CENTRAL PROBLEM IS THE DIFFICULTIES OF ADJUSTING TO THE SHARP DEPRECIATION OF THE DOLLAR. IN PARTICULAR, THERE ARE CLEAR SIGNS THAT, AS A RESULT, DOMESTIC DEMAND IN THE MAIN INDUSTRIAL COUNTRIES IS SLOWING; <sup>AND</sup> THAT APPEARS TO BE <sup>NEARLY GROWTH</sup> THE MAIN REASON FOR THE REVISION TO THE FORECAST.



IN THEORY, THE MASSIVE EXCHANGE RATE REALIGNMENT THAT HAS TAKEN PLACE SHOULD SIMPLY MEAN A REALLOCATION OF DOMESTIC DEMAND WITHIN THE INDUSTRIALISED COUNTRIES - WITH LESS IN THE US AND MORE IN JAPAN AND GERMANY. TO COMPENSATE, EXTERNAL DEMAND IN THE US SHOULD BE STRENGTHENING RELATIVE TO THAT IN JAPAN AND GERMANY. <sup>AND</sup> FOR THE INDUSTRIALISED COUNTRIES AS A WHOLE, DOMESTIC DEMAND AND OUTPUT SHOULD BE UNAFFECTED. <sup>THAT'S THE THEORY. BUT</sup> IN PRACTICE, OF COURSE, IT IS MORE DIFFICULT THAN THAT. SUCH LARGE ADJUSTMENTS RARELY HAPPEN SMOOTHLY, AS WE SAW IN THE AFTERMATH OF THE OIL AND COMMODITY PRICE CHANGES. TO BE MORE SPECIFIC, JAPAN AND GERMANY ARE EVIDENTLY HAVING SOME DIFFICULTY IN SUCCESSFULLY ADJUSTING THE ORIENTATION OF THEIR ECONOMIES TOWARDS DOMESTIC DEMAND; WHILE THE <sup>FOR ITS PART</sup> US <sup>AND</sup> IS FINDING THE REORIENTATION TO EXTERNAL DEMAND A FRUSTRATING PROCESS. <sup>AND</sup> THIS FRUSTRATION, I MAY ADD, LEADS ALTERNATELY TO CALLS FOR FURTHER EXCHANGE RATE DEPRECIATION AND FOR PROTECTION. BOTH ARE FALSE TRAILS, WHICH WOULD ONLY SERVE <sup>AND</sup> TO MAKE THE SITUATION FAR WORSE.

IT WILL INEVITABLY TAKE TIME TO CORRECT PRESENT CURRENT ACCOUNT IMBALANCES. THEY HAVE BUILT UP OVER <sup>MANY</sup> MANY YEARS. DURING THE YEARS OF DOLLAR APPRECIATION, US DOMESTIC DEMAND GREW BY ABOUT 1 PER CENT A YEAR MORE THAN GDP - AND IN JAPAN AND GERMANY, WE SAW THE MIRROR IMAGE. IT WILL TAKE TIME TO UNWIND THAT PROCESS. WE NEED SEVERAL YEARS OF GRADUAL ADJUSTMENT, WITHOUT ANY LET-UP, IF WE ARE TO COMBINE STEADY GROWTH WITH A CORRECTION OF THE PAYMENTS IMBALANCES.

THE SURPLUS COUNTRIES NEED TO SUSTAIN THE GROWTH OF DOMESTIC DEMAND AT A RATE SIGNIFICANTLY FASTER THAN THE GROWTH OF OUTPUT THEY EXPECT TO ACHIEVE IN THE MEDIUM TERM. BUT, EQUALLY IMPORTANT, THEY MUST PROMOTE THE GROWTH OF TRADE AND OPEN MARKETS TO THE REST OF THE WORLD. THIS IS CRUCIAL IN ECONOMIC, POLITICAL AND MARKET TERMS ALIKE. IF MORE OF THE ADJUSTMENT IN SURPLUS COUNTRIES TAKES PLACE THROUGH ENHANCED ACCESS TO MARKETS, WE WILL SEE LESS UNDESIRABLE MARKET PRESSURE ON EXCHANGE RATES AND LESS

EQUALLY UNDESIRABLE POLITICAL PRESSURE IN DEFICIT COUNTRIES FOR ACTION TO PROTECT THEIR MARKETS.

MEANWHILE, DURING WHAT <sup>I'm APPRAID</sup> IS BOUND TO BE AN EXTENDED PHASE OF ADJUSTMENT, THERE IS AN OVERWHELMING CASE FOR A PERIOD OF EXCHANGE RATE STABILITY. BECAUSE THE SHORT RUN EFFECTS OF DEPRECIATION ARE ADVERSE - THE FAMILIAR J-CURVE - IT IS IMPORTANT TO WAIT TO SEE MORE OF THE EFFECTS OF THE REALIGNMENT THAT HAS <sup>ALREADY</sup> OCCURRED WORK THROUGH BEFORE JUMPING TO CONCLUSIONS ABOUT THE NEED FOR FURTHER REALIGNMENT. ALTHOUGH WE <sup>CAN NEVER</sup> CANNOT BE SURE THAT WE ~~NOW~~ HAVE PRECISELY THE CORRECT ALIGNMENT OF EXCHANGE RATES <sup>WHICH</sup> ~~THAT~~, IN THE LONG RUN, IS CONSISTENT WITH CURRENT ACCOUNT BALANCE, WE CAN BE QUITE SURE THAT REPEATED DOSES OF DEPRECIATION WILL SIMPLY PROLONG THE ADVERSE EFFECTS OF THE J-CURVE AND <sup>ALSO</sup> LEAD TO AN OVERSHOOT IN THE OPPOSITE DIRECTION, <sup>AND</sup> THAT IS THE LAST THING WE WANT TO SEE. <sup>IT WAS AN OVERSHOOT THAT CAUSED MOST OF THE PROBLEMS IN THE FIRST PLACE</sup> I AM, THEREFORE, VERY PLEASED THAT YESTERDAY THE MAJOR INDUSTRIAL COUNTRIES WERE ABLE TO AGREE TO A FULL-HEARTED CONTINUATION OF THE PARIS AGREEMENT TO STABILISE EXCHANGE RATES.

BUT IS IS NOT ENOUGH SIMPLY TO SET OUT OBJECTIVES FOR INCREASED EXCHANGE RATE STABILITY. IF WE WILL THE ENDS WE MUST WILL THE MEANS. IT IS SOMETIMES ARGUED THAT GREATER EXCHANGE RATE STABILITY REQUIRES MORE COMPATIBLE POLICIES - BOTH FISCAL AND MONETARY - AND THEREFORE THE EMPHASIS SHOULD BE ON POLICY COORDINATION. <sup>AND</sup> THERE IS <sup>NO DOUBT</sup> MUCH TRUTH IN THAT <sup>ONE</sup> ARGUMENT. BUT AN EFFECTIVE COMMITMENT TO STABLE EXCHANGE RATES CAN ITSELF BE AN IMPORTANT DISCIPLINE TO ENCOURAGE COMPATIBLE POLICIES. IT MAY BE NO GUARANTEE OF COMPATIBILITY, BUT IT EXERCISES <sup>A</sup> POWERFUL PRESSURE IN THE RIGHT DIRECTION.

WHAT THIS MEANS IS THAT EVEN THE LARGEST COUNTRIES HAVE TO BE PREPARED TO GIVE A SUBSTANTIAL WEIGHT TO EXCHANGE RATE OBJECTIVES IN THEIR CONDUCT OF DOMESTIC POLICY - <sup>AND</sup> IN PARTICULAR, <sup>OF</sup> MONETARY POLICY. OBVIOUSLY, IT IS DESIRABLE TO AVOID EXCESSIVE VOLATILITY IN INTEREST RATES AND DOMESTIC MONETARY CONDITIONS IN INDIVIDUAL COUNTRIES AND IN THE AGGREGATE. AT THE SAME TIME, WE MUST AVOID ANY TENDENCY TOWARDS EITHER AN INFLATIONARY OR

DEFLATIONARY BIAS FOR THE INDUSTRIALISED COUNTRIES AS  
A WHOLE. <sup>AND</sup> THIS UNDERLINES THE IMPORTANCE OF EXAMINING  
THE PERFORMANCE OF THE MAIN INDUSTRIALISED COUNTRIES  
AS A GROUP <sup>AND</sup> ON A ROUTINE BASIS.

I CONCLUDE, MR. CHAIRMAN, WITH THIS THOUGHT.  
THE MAIN PRINCIPLE OF SOUND ECONOMIC MANAGEMENT IS TO  
GET THE POLICIES RIGHT WITHOUT DELAY AND THEN STICK TO  
THEM EVEN THOUGH IT MAY TAKEN AN UNCOMFORTABLY LONG  
TIME TO SEE THE RESULTS. THAT IS WHAT WE HAVE TO DO.

12-19 / 11

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CHANCELLOR'S SPEAKING NOTE FOR THE INTERIM COMMITTEE  
THURSDAY, APRIL 9, 1987

DEBT

IT IS NOW NEARLY 5 YEARS SINCE THE DEBT CRISIS BROKE. THESE MEETINGS PROVIDE AN OPPORTUNITY TO TAKE STOCK OF HOW WE HAVE COPEDED WITH IT, AND HOW POLICY SHOULD DEVELOP IN THE FUTURE.

IN 1982 THE POSITION WAS VERY SERIOUS INDEED. THE CREDIT STANDING OF MANY DEVELOPING COUNTRIES PLUMMETED. THERE WERE WORRIES ABOUT THE STABILITY OF THE INTERNATIONAL BANKING SYSTEM AND ABOUT THE POSSIBLE REPERCUSSIONS ON THE WORLD ECONOMY ITSELF.

THE IMMEDIATE NEED WAS TO BUY TIME, WITH THE AIM OF PUTTING THE FINANCES OF DEVELOPING COUNTRIES ON A SOUNDER FOOTING, AND REDUCING THE VULNERABILITY OF THE BANKING SYSTEM.

OVER THE PAST 4½ YEARS, A GOOD DEAL HAS BEEN ACHIEVED.

- MANY DEBTOR COUNTRIES HAVE IMPLEMENTED REFORM PROGRAMMES, AND ARE NOW PURSUING POLICIES WHICH WILL

LEAD TO A SUSTAINABLE SOLUTION TO THEIR DEBT PROBLEMS. IN PARTICULAR, A NUMBER HAVE COME TO APPRECIATE THE BENEFITS OF LETTING MARKETS WORK MORE FREELY, AND OF BRINGING THEIR BUDGET DEFICITS UNDER CONTROL.

- THE INTERNATIONAL INSTITUTIONS HAVE BECOME MORE CLOSELY INVOLVED. THE FUND HAS PLAYED AN IMPORTANT ROLE IN STRESSING THE NEED FOR COUNTRIES TO PURSUE MORE SUSTAINABLE POLICIES, AND THE WORLD BANK HAS EXPANDED ITS ACTIVITIES.
- THE BANKING SYSTEM IS IN BETTER SHAPE, AS BANKS HAVE STRENGTHENED THEIR CAPITAL BASE AND INCREASED DEBT PROVISION,

AND THE WORLD ECONOMY IS HEALTHIER THAN IN 1982. GROWTH IN THE MAJOR SEVEN COUNTRIES HAS AVERAGED 3½ PER CENT A YEAR SINCE THEN, COMPARED WITH LESS THAN 2½ PER CENT IN THE PREVIOUS DECADE, AND INFLATION IN 1986 AVERAGED SOME 5 POINTS LOWER THAN IN 1982.

3A

I RECOGNISE THAT MANY DEVELOPING COUNTRIES HAVE SUFFERED FROM THE MARKED FALL IN COMMODITY PRICES, WITH SOME ACUTELY AFFECTED BY THE COLLAPSE OF THE OIL PRICE. BUT MOST HAVE STOOD TO BENEFIT FROM THE FASTER GROWTH OF IMPORTS INTO OECD COUNTRIES. THE COST OF SERVICING DEBT HAS BEEN REDUCED BY THE FALL IN DOLLAR INTEREST RATES, WHICH ARE NOW 6 POINTS LOWER THAN IN 1982. CONTINUED GROWTH IS FORECAST IN BOTH GNP AND TRADE FOR THE MAJOR COUNTRIES.

THUS IT IS CLEAR THAT THE ORIGINAL STRATEGY ADOPTED IN 1982 HAS ACHIEVED AT LEAST ITS IMMEDIATE OBJECTIVES. THE QUESTION IS HOW WE TAKE IT FORWARD.

LET US NOT DELUDE OURSELVES. THE DEBT PROBLEM REMAINS ACUTE.

- THE RATIO OF DEBT TO EXPORTS IN THE BAKER 15 COUNTRIES HAS RISEN, FROM 270 PER CENT IN 1982 TO 343 PERCENT LAST YEAR. AND IN SPITE OF THE FALL IN INTEREST RATES, THE RATIO OF INTEREST PAID TO EXPORT EARNINGS HAS DECLINED ONLY SLIGHTLY.



- THE RATIO OF DEBT TO GDP HAS ALSO RISEN, FROM 42 PER CENT IN 1982 TO 50 PER CENT LAST YEAR.
- CAPITAL FLIGHT, WHICH INEVITABLY DAMAGES THE GROWTH PROSPECTS OF THE DEBTOR COUNTRIES, DOES APPEAR TO HAVE REDUCED IN SCALE RECENTLY, BUT IT IS STILL RUNNING AT A HIGH LEVEL. THE IMF HAVE ESTIMATED THAT IT AVERAGED SOME \$16 BILLION A YEAR IN THE PERIOD 1983-85.
- THESE PROBLEMS HAVE BEEN REFLECTED IN THE GREATER DIFFICULTY WHICH THE FUND HAS HAD IN PUTTING TOGETHER ITS PROGRAMMES, AND IN THE RELUCTANCE OF THE BANKS TO PROVIDE NEW MONEY.

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UNCLASSIFIED



P7

FROM: A W KUCZYS  
DATE: 14 May 1987

MR CROPPER

cc: PS/CST  
PS/FST  
PS/EST  
PS/MST  
Sir T Burns  
Mr Scholar  
Mr Culpin  
Miss O'Mara  
Mr Hudson  
Mr Ross Goobey  
Mr Tyrie

**SCOTTISH PARTY CONFERENCE SPEECH**

... I enclose a copy of the final version of the speech the Chancellor is delivering at the Scottish Party Conference this morning.

A handwritten signature in black ink, appearing to be "A W Kuczys".

A W KUCZYS

**CHANCELLOR'S SCOTTISH PARTY CONFERENCE SPEECH:**

**THURSDAY 14 MAY**

(Embargoed until delivery; check against delivery)

I must congratulate whoever it is who chooses the date for this Conference.

Four years ago, it was the Scottish Party Conference which provided the springboard for our General Election victory in June of that year.

Here we are again today, at a Scottish Party Conference which we firmly intend will be the springboard for yet another June victory.

Not that we should take it for granted.

It will have to be fought for, and won.

We should never underestimate the Opposition.

They have advantages as well as their manifest disabilities.

Unlike the so-called Alliance, the Labour Party has the advantage of deep roots in our society.

While the Liberals and the SDP have the advantage of not being the Labour Party.

But in one important respect the Opposition are weaker than ever before.

For they have lost touch with reality.



And they have lost touch with the aspirations of the British people.

Even their attempts to keep in touch only show how out of touch they are.

The other day I received a letter from Mr Neil Kinnock.

I have it here duly addressed to Mr N Lawson, 11 Downing Street, London W1.

It should have been SW1 but leave that aside.

The letter begins:

"Dear Supporter.

My purpose in writing to you is to ask you to add your financial support to our campaign."

Well, I've cut his taxes: what more does he want?

The letter goes on:

"Our campaign will be stunning"

It's certainly left most of his backbenchers stunned already.

It went on:

"While others will try the usual tactic of smear and half-truth....we will go with our record and our plans."

This was just after they had published their work of fiction - or should I say smear and half-truth - the so-called "Real Conservative Manifesto".

But perhaps the opposition parties show themselves most out of touch with the real world by their failure to grasp the fact that the British economy is sounder and stronger than ever before.

We are now entering our seventh successive year of healthy economic growth.

What a contrast to the 1960s and 1970s.

In the 1960s, we grew more slowly than any of our main European rivals.

The same happened in the 1970s - bottom of the league again.

During the 1980s we have been right at the top of the European growth league.

It is nothing short of a transformation.

A transformation widely recognised throughout the world.

And we are set to move further ahead this year.

Exports are at record levels.

Investment is at record levels.

And profits are at record levels.

Thank goodness profit is no longer a dirty word.

And look at manufacturing productivity.

Throughout the 1960s and 1970s, all our major competitors were able to produce more goods than we could with the same number of workers - in other words, their productivity was higher.

We fell further and further behind - bottom of the world league here as well, during the 60s and the 70s.

But in the 1980s we have out-performed the rest on manufacturing productivity, too.

Not just our major European rivals, but the Americans and the Japanese as well: we are top of the world league.

And productivity in Scotland has grown even faster than in the rest of the United Kingdom.

And what of unemployment?

Yes, it is still far too high.

But here again the news is good, and getting better.

Since the last General Election, we have created a million extra jobs - more than the rest of Europe put together.

Until recently, even this growth of jobs barely kept pace with the bulge of school-leavers and an increasing number of working women.

But now, unemployment is firmly on the way down, and today's figures show a further sizeable fall.

Indeed, the fall in unemployment over the past year is the biggest in any year since 1973.

Britain is doing well.

And this year's Budget was another move forward.

Inevitably, some of the press called it a "give-away" Budget.

It's always nice to be labelled as generous.

But I have to tell you, I have given nothing away.

It isn't my money to give.

It's yours.

You earned it, and you have the right to keep it.

You know best how to spend it, for the benefit of your families.

We in Government will take only what we need to pay for the services which only the State can provide.

Labour, the Liberals and the SDP are full of ideas for spending the money that was available to me in this Budget.

What they don't understand is that, with their policies, they would never have been in that position in the first place.

Never: not in a million years.

They also try and delude the British people that higher Government spending is the route to more jobs.

If that were true, those economies with the highest Government spending would be creating most jobs, and those with lowest Government spending would create least.

But the very opposite is the case.

Over the ten years to 1985, Western Europe, where Governments spend approaching half their national income, created no extra jobs at all.

By contrast, America, where Government spends less than a third, has created 20 million jobs.

Jobs only come from a vigorous economy, and that means reducing taxes, as and when it is prudent to do so.

Because lower taxes sharpen incentives, encourage enterprise, and leave people more money to save and invest.

Mr Hattersley says that if people have more money in their pockets, they will spend it all on foreign goods.

What a defeatist view of British Industry!

A British Industry which has never been better placed to sell you well designed, well made goods, at competitive prices.

When I saw the TUC before the Budget they said: don't cut income tax, it will only be spent on imports.

Very well, I said; then I expect you to give up your pay claims, because those will only be spent on imports.

Answer came there none.

The worst news for jobs would be if taxes went up.

And that's just what would happen, if the Opposition parties had a majority.

Because all of them voted against the reduction in income tax to 27 pence in the pound, which will be reflected in most people's pay packets next week.

And don't imagine they would be satisfied with putting this year's twopence back on the income tax.

We have carefully costed all of Labour's spending pledges.

They amount to a staggering £34,000 million of extra spending.

To finance that they would need to double the basic rate of income tax - or increase VAT to almost 50 per cent.

But I must be fair.

And indeed I always am.

Labour did achieve a rate of 27 per cent.

Only it wasn't the basic rate of income tax.

It was 27 per cent inflation.

Inflation under Labour destroyed small businesses and robbed the pensioner - it must never be allowed to happen again.

Never.

The key to our success has been getting inflation down and keeping it down.

And today it stands at around 4 per cent.

Don't let anyone, ever, take this achievement for granted.

It can never be taken for granted.

The reason we are able to cut taxes, reduce borrowing, and spend more on priority services has nothing whatever to do with luck: it is because our policies have produced a vigorously growing economy with low inflation.

And Scotland is sharing in this economic revival.

You have not had it easy.

Scotland had to start from a heavy dependence on a small number of old industries.

And having developed the most successful off-shore oil industry in the world you have now had to adjust to the collapse of the world oil price.

But the signs of progress and advance are all around us.

The transformation of Scotland is already well under way.

The enterprise and flair of the Scots in the nineteenth century is being brought to the industries and jobs of the twenty-first.

An economy once based on steel, heavy engineering, and ships is becoming an economy based on computers, financial services, and a surge of new companies.

Scotland is better placed than ever before to take advantage of the enterprise society which will keep her and Britain ahead of the international field in the twenty-first century.

Already, two out of three jobs in Scotland are in small businesses, most of them new, or in the service industries.

A dramatic transformation!

The fishing industry is, of course, a key part of the Scottish economy.

Over recent years, a significant trade has developed in locally caught mackerel and herring which are processed by factory ships known as Klondykers and exported. These ships also bring other economic benefits to Scottish ports.

I know that there has been great concern that this trade could be endangered if customs charges were imposed on the stores imported for use by the Klondykers, and I am glad to announce today that the Government intends to legislate as early as possible in the new Parliament to relieve these stores from duty. I am sure this will be welcomed by the Scottish fishing industry.

As this Election campaign begins, it is right that we should look back at what we have achieved so far.

In particular over the four years since we were last re-elected. I wonder how many people would have believed me if, in 1983, I had promised that by 1987:

- Britain's economy would be growing faster than that of any other major country in the world?  
Yet it is.
- That some one million more people would be in work?  
Yet they are.
- That our net overseas assets would have exceeded those of any other European country, not to mention the United States?

Yet they have.

- And that we would have achieved all this despite enduring a year long coal strike, followed by a collapse of our oil revenues, on which it had been said that our whole economy depended?

Yet we have.

But a General Election is not just about a Government's record, important though that is.

It is also about the future.

Our manifesto will set out in the clearest possible terms what we propose to do in our third term, to move further towards our vision of a society firmly founded on freedom and responsibility.

We will further reduce the burden of income tax, with a basic rate of no more than 25 pence in the pound.

We have already privatised over a third of the State-owned industry we inherited.

We will press ahead with a further major privatisation programme.

The number of Britons directly owning shares has already trebled since we first took office, to one in five of the adult population.

We will push the boundaries of popular capitalism still further.

And we will continue to make the defeat of inflation our first priority, until we have eliminated it altogether.

So that is our agenda for the future: moving forward to lower income tax; moving forward, with more privatisation; moving forward to even wider share ownership; and moving forward to banish inflation.



And it is an agenda that only the Conservative Party is offering the people of Britain.

No other Party in this Election shares a single one of these objectives.

And the lesson is clear.

Any Party that is not committed to lower income tax would increase income tax.

Any Party that is not committed to privatisation would preside over increased State ownership.

Any Party that is not committed to popular capitalism would see share ownership become, once again, the privilege of the few.

And any Party that is not determined to move towards stable prices would inevitably allow a resurgence of rampant inflation.

So the choice before the British people in this Election is as stark as it was in 1979 and 1983.

As stark as it has ever been.

To move forward, in a spirit of free enterprise and initiative.

Or back to the dismal days of State planning and regulation.

To move forward, with incentives to succeed.

Or back, to the days of penalties on success.

To move forward, to compete with confidence in world markets.

Or back, to try to hide behind a barrier of controls.

To move forward into the 1990s.

Or back, to the 1970s.

The way forward - the only way forward - is with another Conservative Government.

That is our message to the British people.

I believe the other Parties are out of touch, not merely with the reality of Britain today, but with the aspirations and ideals of the British people.

Never underestimate the importance of the tide of ideas.

No British Government has ever been defeated unless and until the tide of ideas has turned against it.

And so far from turning, the tide of ideas that swept us into office in 1979 is flowing even more strongly today.

And that, above all, is what will sweep us back into office on the eleventh of June.

(P7)



FROM: A P HUDSON  
DATE: 20 May 1987

MR MONCK

cc PS/Chief Secretary  
PS/Financial Secretary  
PS/Economic Secretary  
PS/Minister of State  
Sir P Middleton  
Sir T Burns  
Mr Cassell  
Mr Burgner  
Mrs Lomax  
Mr Scholar  
Mr Peretz  
Mr Ilett  
Mr Culpin  
Miss O'Mara  
Mr P R C Gray  
Mr C W Kelly  
Mr Burr  
Mr Cropper  
Mr Tyrie  
Mr Ross Goobey

**CHANCELLOR'S SPEECH TO CBI ANNUAL DINNER**

... I attach the final version of the Chancellor's speech to the CBI Annual Dinner yesterday.

2. This has not been checked against delivery, but the substance is correct.

A handwritten signature in black ink, appearing to be 'A P HUDSON'.

A P HUDSON

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**EXTRACT FROM CHANCELLOR OF THE EXCHEQUER'S SPEECH TO THE CBI ANNUAL DINNER, 19 MAY 1987**

We have succeeded in getting some 60 per cent of this year's Finance Bill onto the Statute Book with extraordinary rapidity. The reduction in income tax and in the small companies' corporation tax rate, cash accounting for VAT for small businesses, the improvement in business retirement relief, the sharp increase in the threshold for inheritance tax, the relaxations to the North Sea fiscal regime, and the final repeal of the Exchange Control Act: all these measures are now law.

Tonight's dinner comes at the very start of the General Election campaign, with the Manifestos of the two main parties published only this morning. I recognise that one or two of you may not yet have had time to read them in full. But I hope you do. Both of them. All of them. I may touch on one or two of the Government's proposals later in the course of my remarks. But there is one thing you all know already. You know where you stand with us.

**The Challenges Abroad**

As you have indicated, Mr President, the British economy today is stronger and sounder than at any time since the War. Indeed, it is a measure of what has been achieved that, for the first time for decades, the biggest source of concern about our continued economic success lies in fears that in a number of key respects the world economy may not perform as well as we ourselves are doing.

The world economic system does not take kindly to shocks, however necessary they may be from time to time. Last year, it had to adjust to the sudden halving of the oil price, and to substantial falls in other commodity prices. As a result, output growth slowed. This year, the central problem is one of adjustment to the sharp depreciation of the dollar. Japan and Germany are evidently not finding it easy to replace export-led growth with an expansion of home demand and of imports, while the United States is finding

the necessary shift towards exports a frustrating process. As a result, with the conspicuous exception of the United Kingdom, most forecasts of growth in the industrialised countries this year have been revised downwards.

We must continue to do all we can to press the three major countries to take the measures necessary to reduce these imbalances and speed up the process of adjustment, while vigorously resisting the temptation to seek a short cut. Sometimes the short cut proposed is a further depreciation of the dollar, at other times a lurch into protectionism. Both are false trails.

So far as the dollar is concerned, the full effects of the huge depreciation that has already occurred have not yet worked through. To embark on a further large depreciation now could well lead to an overshoot in a downward direction as destabilizing, distortionary and as damaging as the earlier dollar overshoot in an upward direction, from which so many of the world's current difficulties directly stem. That is why we and the other major industrialised countries have agreed to act together to secure a period of exchange rate stability.

As for protectionism, that is no answer at all. For nations as powerful as the United States and Japan to make their markets less, rather than more, free would not be a sign of virility, but rather an admission of defeat. And the effect would inevitably be to provoke retaliation and counter-retaliation, with the risk of plunging the world into a disastrous trade war.

Mr President, you mentioned the CBI's concern on this matter, and your important forthcoming visit to Japan. I welcome the CBI's full-hearted commitment to keep the channels of world trade flowing unimpeded.

I referred a moment ago to exchange rate stability - something always a good deal easier said than done. And I have always believed that, in market management, actions speak louder than words.

I allowed, last year, a proper adjustment in the exchange rate as we lost, in short order, half the value of our oil. I made clear in the autumn that the adjustment had gone far enough. I have made equally clear this Spring that I do not want to see it reversed. And I have shown, as plainly as possible, that I share the overwhelming view of British industry that a period of exchange rate stability is now highly desirable.

This is not rhetoric. It is the record of our actions.

Over the past few weeks, there has been substantial upward pressure on the exchange rate, which we have resisted by a combination of interest rate reductions and intervention in the foreign exchange markets on a substantial scale - which has incidentally brought about a useful strengthening of the reserves, much more than recouping the amount spent last autumn. I recognise, Mr President, from your remarks this evening, that your members would have preferred to see interest rates even lower. But I have to say, as I have said before, that I am simply not prepared to take risks with inflation. Moreover, it is worth noting that real short-term interest rates in the UK, as conventionally measured, are now broadly in line with the average for the seven major industrial countries.

Throughout my time as Chancellor, my consistent aim has been to keep the economy on a track which will gradually squeeze out inflation and facilitate steady, sustained growth. I do not pretend that it is a precise science. Of course it takes judgement, and of course there are short-term fluctuations. But I don't have to labour the point: we have delivered. You know where you stand.

Any government which means to pursue this policy responsibly has to have the courage of its convictions. That means sticking to the path we set ourselves. And it means refusing to accommodate, in anything but the very short term, pressures which could push us off our anti-inflation track.

So my message to industry is very clear. Do not expect me to bail you out, through sterling depreciation, if you let your costs rise too fast. That would be a surrender to inflation. But, equally, do not worry that I shall impose an unnecessary and undesirable squeeze on you either, whether through the exchange rate or in any other way. I no more want to run the economy below the path we have set than above it.

You can rely on us to keep the economy firmly on the track that has brought the success which had eluded our country for a generation and more.

### And the Challenges at Home

Although the biggest worries on the economic horizon today stem from developments overseas, none of us can afford to ignore the constant need for improvements in how our own economy works.

First, pay. Wages in this country continue to rise faster than in our main competitors. While the sharp - and welcome - improvement in productivity has meant that the effect on unit labour costs is relatively modest, the fact remains, as the CBI has repeatedly made clear, that some deceleration in the rate of wage increases is essential if we are adequately to improve the competitiveness of British industry and speed up the creation of new jobs. It is the responsibility of management to bring this about.

In this context, it is clear that there is much to be said for a more flexible pay system in which pay is more closely linked to performance. Certainly, those companies which have introduced profit-related pay schemes believe them to have been unequivocally beneficial. The tax relief which I announced in this year's Budget is designed to encourage profit-related pay to spread. I am glad to say that the number of employers who have registered with the Inland Revenue their interest in setting up a qualifying profit-related pay scheme already exceeds 14,000. The provisions to enact this will be reintroduced early in the next Parliament, and back-dated.

But we will not have a satisfactory labour market in this country until we have a properly functioning housing market. We badly need to assist the mobility of labour by reviving the private rented sector. The Government's manifesto, published today, sets out precisely how, in the next Parliament, we intend to achieve this.

In your speech, Mr President, you set out what you described as the CBI's three themes for 1987: innovation, import substitution, and training. I welcome this choice. And on training, you are surely right that part of the problem lies in the anti-business culture in this country.

This has to be changed, and first and foremost it has to be changed in our schools. Certainly, there is a growing sense among parents and employers alike that our schools are not adequately equipping our children for the world of work. We have, hitherto, hesitated to intervene in what is, in this country, the province of local government. But central government cannot responsibly stand aside any longer. We are therefore proposing a number of far-reaching educational reforms designed to secure the improvement in standards we all wish to see.

#### The Success of the Economy

These are all problems which we have to tackle if we are to improve on our present economic success. But the job is indeed one of building on success. Britain now has the fastest rate of growth of all the major economies in the world. These are indeed, to use your own expression Mr President, the exhilarating 'eighties.

Your most recent Quarterly Survey of manufacturing industry provides further evidence. More firms than ever are expecting orders, including export orders, to increase; more are expecting to



increase output; more are investing; and business optimism is as high as it has ever been for a decade or more.

The economy as a whole is about to embark on its seventh successive year of growth, well balanced between consumption and investment, and proceeding at a remarkably steady rate. And inflation, which choked off so many previous recoveries, is low and set to stay low. Indeed, the outlook for inflation this year is now rather better than I forecast in the Budget. At that time, I said that I expected inflation to edge up for a time perhaps exceeding  $4\frac{1}{2}$  per cent by the summer, before falling back to 4 per cent by the end of the year. Now, though the profile will be much the same, I no longer expect the peak to exceed  $4\frac{1}{2}$  per cent, while the rate at the end of the year is likely to be below 4 per cent. Meanwhile, the tax and price index, which probably gives a better guide to the overall cost of living, is only  $2\frac{1}{2}$  per cent up on a year ago.

At the heart of this economic success has been a dramatic improvement in what the experts call the supply side of the economy.

Perhaps the clearest sign of this has been the enormous improvement in the rate of growth of manufacturing productivity. In both the 1960s and the 1970s we fell further and further behind our competitors. In the 1980s we have grown faster than any of them. It is no coincidence that since 1981, British exporters have maintained, and indeed slightly increased, their volume share of world trade in manufactured goods, after decades of decline. Exports are rising fast - up by 10 per cent on the first quarter of last year, continuing a trend which began well before the fall in the pound last year.

Company profits, too, are very much healthier, with profitability in 1985 higher than in any year since 1964, and continuing to rise. And the ranks of established firms are being joined by growing numbers of new businesses - at a rate of more than 500 a week, even after deducting those that fail. The rate of new business formation is one of the surest signs of a dynamic, healthy economy,

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just as the lack of it was both a symptom and a cause of the stagnation of the 1970s.

It is the strength of the economy which gives us the best reason for confidence that the welcome fall in unemployment, which has now been going on for nearly a year, will continue. Unemployment remains far too high, but it is absurd to try to argue that the fall is some kind of statistical invention. The evidence of the change in the labour market is all around us, not least in the extra pages of job advertisements now carried by newspapers all over the country.

The new-found success of Britain is now recognised throughout the world. And it is no mere cyclical upturn. As this week's Economist concluded, the past eight years have seen the turning of the tide: nothing less than - I quote - "the ending of decades of relative economic decline".

### Conclusion

Mr President, when I last spoke at the CBI Annual Dinner, three years ago, I said that the Government has put in place the policies which the CBI had, rightly, long been asking for, and that now it was up to business and industry to take advantage of them, "to earn the profits, win the markets, create the jobs, and show the world that, once again, Britain really does mean business."

That is precisely what you have done, and I salute you.

And that is why the world is now looking at Britain in a new light. British firms are now treated with a new respect in world markets. So are British managers. And British goods and services. Above all, so is the British economy as a whole.

As a nation, we have emerged from the self-doubts of the 1970s to a new self-confidence. We are at long last rediscovering the enterprise culture and the benefits that can bring. What industry needs now is a period of continuity and stability, so that it can build on its successes and plan for the future with confidence. And that is what we firmly intend to provide.



Sir T. Burns  
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23 June 1987

P7

## CHANCELLOR SPEAKS IN EDINBURGH

The Chancellor today speaks to the Edinburgh Chamber of Commerce. The full text is attached. Main points are:

"Controlling inflation does not by itself explain our new economic strength. At the heart of that success has been the dramatic improvement in the supply side of the economy.

"The job of government is to allow the economy to adjust so that new businesses can come through, viable businesses can expand, and new jobs can emerge. This has been a key objective of the supply side reforms.

"There could be no better illustration of the way an economy can adjust to new opportunities than the performance of Scotland in the 1980s. The transformation has been dramatic. Within manufacturing, the new technology industries now employ more people than all the traditional heavy industries combined. More semi-conductors are produced per head of population in Scotland than in any other country in the world - five per head per week, compared with three in the USA and 3½ in Japan.

"The difficulties of the oil sector, which Scotland has suffered in common with other oil provinces throughout the world, have only temporarily masked the strong performance of the much larger non-oil economy. The future for the Scottish economy is bright. You have embraced the new technologies, new industries, and new opportunities in the service sector. And many of the more traditional industries which have been through a difficult spell are emerging reinvigorated.

"The 1980s have seen rapid economic changes in the UK as a whole, and Scotland in particular. The Government's aim has been to create the conditions in which business can seize the opportunities which have been presented. And the response of businesses, in all parts of the kingdom, has been remarkable. From being the sick man of Europe, we are leading the way."

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35/87

**CHANCELLOR OF THE EXCHEQUER'S SPEECH TO THE EDINBURGH CHAMBER OF  
COMMERCE, 23 JUNE**

I wish to focus today on what lies behind the new-found strength of the British economy that has been such a feature of the 1980s

There should be no doubt by now about the transformation that has occurred in the British economy this decade. The basic figures are becoming familiar: we were bottom of the European growth league in the 1960s and 1970s, but top in the 1980s; and are now growing faster than all the other major industrial countries, in what is our seventh successive year of growth.

Further evidence of the strength of the economy came yesterday, with confirmation that output grew strongly in the first three months of the year, to reach a level more than 4 per cent higher than a year ago, with manufacturing and services both doing well and construction particularly strong. The CBI survey, published yesterday, showed that the balance of firms expecting to increase output over the next four months is the highest since this question was first asked, and the same is true for the number of firms reporting export order books to be above average.

As this upswing goes on, more and more people, at home and abroad, are realising that what we are seeing is much more than a recovery from recession, or than the operation of the normal cyclical pattern. For decades, observers both at home and abroad have been accustomed to a faltering performance from the British economy, with short spells of growth, usually accompanied by rapid inflation, interspersed with balance of payments crises, and damaging strikes. Not for nothing was this dubbed "the British disease". But now, it is becoming clear on all sides that that period is decisively behind us. And instead of wondering whether the recovery will last, people are asking what has caused this transformation.

A part of the answer is by now well understood. It was clear when we took office in 1979 that there was no prospect of seeing sustained growth in the British economy until inflation was brought under control. This we have done, through a firm fiscal and monetary policy. And inflation now is around its lowest levels for nearly twenty years.

But controlling inflation does not by itself explain our new economic strength. At the heart of that success has been the dramatic improvement in the supply side of the economy.

The essence of this lies in producing goods and services more efficiently. This is not something that Governments can achieve - it depends on managers and workforces in businesses up and down the country. What the Government has done is to abolish the battery of unnecessary rules and regulations which were inhibiting management from doing their job properly.

- By having no truck with incomes policy, we have placed firmly on management the job of determining pay levels.
- Through three Employment Acts, we have given trade union members a greater say in the running of their unions, and redressed the balance of power between management and the union bosses.
- By abolishing controls on foreign exchange, hire purchase, and bank lending, we have paved the way for the rapid development of the financial sector. This has brought a new range of options for companies in meeting their financial needs, alongside the benefits to financial companies themselves, which are so evident here in Edinburgh.

British managers have seized the opportunities with both hands. Industrial relations are better than they have been for half a century. Investment has been proceeding at a healthy rate. And British firms are competing with the best on quality, design and efficiency.

The improvement of the supply side of the economy is epitomised by what has happened to productivity, which has always been recognised as a crucial index of economic performance. Sluggish manufacturing productivity growth was a key part of the British disease of the 'sixties' and 'seventies': our record was the poorest of all the major industrial countries. But in the 1980s, manufacturing productivity has grown faster than in any of the other major countries - and within Britain, Scotland has led the way, with manufacturing productivity growing half as fast again as in the UK as a whole.

There is still more to do in reforming the supply side of the economy. In particular, the shortage of private rented accommodation in many parts of the country makes it difficult for people to move to where the jobs may be, and we shall be tackling that constraint. The labour market remains rigid in a number of ways, in particular the responsiveness of an employee's wages to the fortunes of the business he works for. I have accordingly decided to encourage the spread of profit-related pay through tax relief, a measure which will be reintroduced in the forthcoming Finance Bill in a few days' time.

Supply side improvements, a higher quality of management, and enhanced productivity are all important in themselves. But they testify to something of much greater significance for our country. And that is the rebirth of the enterprise culture.

The Scottish people should need no persuading of the benefits of economic freedom, since Scotland was the cradle of the enterprise culture, which was shaped by thinkers such as Hume and Adam Smith, and embodied by engineers and businessmen such as Watt.

In fact there is a good deal of evidence that Scotland is sharing in our growing economic prosperity. For example, in 1985 GDP per head - one of the best measures of overall living standards - was higher in Scotland than anywhere in the UK apart from the South East and East Anglia. And average male earnings in Scotland have consistently been higher than in any other part of the UK outside the South East. Nor is there a shortage of public money: the level

of public spending per head is significantly higher than the UK average. But in spite of these figures, there remains a belief that the success of much of the UK has passed Scotland by.

Part of the reason for this surely lies in the scale and nature of the changes that have occurred in the Scottish economy in the 1980s. Many of Scotland's traditional manufacturing industries have experienced difficulties and closures. Meanwhile, new industries have grown up, and the service sector has expanded. And the development of the oil industry has had a particularly marked impact on Scotland. It is worth looking at these trends in more detail.

For much of the post-War period, the Scottish economy was heavily dependent on a relatively small number of traditional, heavy industries - steel, heavy engineering, ships and textiles. Over the past decade, these industries have undergone severe difficulties in all the advanced industrial nations, because of the reduction in demand for their products, coupled with increased competition from the newly industrialised countries, notably those in the Far East. And the implications for employment have been significantly greater than for output, because of the need to become more competitive, which has frequently involved investing in labour-saving technology.

This is not a phenomenon peculiar to the UK: think of the American rust belt, or the manufacturing cities of northern France. Nor, within the UK, has Scotland suffered disproportionately compared to other regions - the recession of 1979-81 had a smaller effect on manufacturing output in Scotland than in the rest of UK. On the other hand, the recovery has been correspondingly less strong, and there are some industries - notably steel - where the decline in England took place some years ago, but in Scotland did not occur until much more recently.

Clearly, the loss of traditional industries and jobs is traumatic, particularly when these are concentrated in particular areas, as was indeed the case in Scotland. The question for Government is how to respond.

Governments cannot sensibly stand in the way of long-term developments in the industrial pattern of the world, either by trying to cut their people off from the competition from the newly industrialising countries, or by artificially shoring up domestic firms. That approach merely makes the inevitable decline more traumatic when it finally occurs.

Nor can governments by themselves regenerate the economy of an area and create new jobs, through the means, which is so often urged on us, of higher public spending. Look at the evidence. Over the ten years to 1985, Western Europe, where governments spend approaching half their national income, created no extra jobs at all. By contrast, the United States, where Government spends less than a third, has created 20 million jobs.

The job of government is to allow the economy to adjust so that new businesses can come through, viable businesses can expand, and new jobs can emerge. This has been a key objective of the supply side reforms, which I spoke about earlier and which have been so important to our new economic strength. That, too, is why we are committed to reducing the tax burden.

There could be no better illustration of the way an economy can adjust to new opportunities than the performance of Scotland in the 1980s. The transformation has been dramatic.

Within manufacturing, the new technology industries now employ more people than all the traditional heavy industries combined. Output in the micro-electronics industry more than doubled in real terms in the four years between 1981 and 1985. And total sales by the electronics industry are estimated to have reached £2.3 billion in 1984, representing 13 per cent of the total sales of Scottish manufacturing industry. More semi-conductors are produced per head of population in Scotland than in any other country in the world - five per head per week, compared with three in the USA and 3½ in Japan.

The development of the electronics sector has demonstrated how, given the right economic conditions, a new industry can emerge.



Many overseas companies have invested in Scotland - eleven of the top twenty US electronics companies now have factories here. They are attracted by the potential of the skilled labour force, and the high quality work carried out in Scottish universities. And an independent survey of US electronics firms in Scotland testified to the importance of supply-side reforms in making Scotland an attractive location: most companies reported that the performance of their Scottish plants compared favourably with others overseas in terms of industrial relations, quality of skills, and output per worker.

Within the electronics sector, success has bred success. Alongside the inward investment from multinational firms, a large local presence has grown up. Over half the 260 electronics companies operating in Scotland are small domestically-owned enterprises.

The emergence of these businesses is a further example of what can happen in a climate conducive to enterprise. It is clear that in all advanced countries, small businesses are of increasing importance as an engine of growth and job creation.

The encouragement of small firms has always been a priority of this Government: we have removed unnecessary red tape and restrictions which got in the way of the essential job of making profits: and we have brought in specific measures to help, such as the Business Expansion Scheme, the Enterprise Allowance, and the Loan Guarantee Scheme. The number of companies registered in Scotland has risen by 15,000 since 1979, after taking account of those which failed, and there has been a marked increase in the number of small firms.

The stagnation of the small business sector in the UK was both a symptom and a cause of the economic decline of the 1970s; its rise has been a key feature of the success of the 1980s.

Employment in services is becoming steadily more important in all the major economies, and Scotland has long been in the van of this development. Two-thirds of the total workforce is employed in services here, a higher proportion than in any region of the UK

apart from the South East. The services sector created 43,000 new jobs in the three years to June 1986.

One of the leaders in the service sector has been the financial world. The broad category of Financial and Business Services now accounts for over 150,000 Scottish jobs.

Concrete evidence of the outward looking nature of the Scottish financial community is the fact that you have established a new organisation - Scottish Financial Enterprise - with the express aim of selling your financial services to the world. The shrewder businessmen seeking to raise funds tend to make sure that, wherever else they visit, they do a presentation in Edinburgh! Indeed, the Government itself followed this trend this morning, making a presentation to Scottish investors, here in Edinburgh, on the BAA flotation.

Thus, the Scottish economy has seen a number of long-term changes which have affected other countries: the decline of heavy industry, the growth of small businesses, and the development of services industries. But over the past decade, it has also had the special factor of North Sea oil.

There should be no doubt of the overall benefits of North Sea oil to Scotland and the UK as a whole. Every day, oil production brings Scottish firms work worth around £6 million. And close to 100,000 people in Scotland are employed by firms directly or indirectly involved in North Sea oil development.

But by the same token, this meant that the impact of last year's collapse in the oil price would inevitably be severe. Some 12,000 jobs were lost in the oil sector itself, plus a further 8,000 in firms indirectly involved in oil development.

To assist the oil companies in adjusting to the new climate, I took steps to accelerate the repayment of Advance Petroleum Revenue Tax, to boost companies' cash flow and to reduce the risk of delay to worthwhile projects. This measure was worth some £300 million to the industry in 1986-87. In this year's Budget, I introduced two

further tax reliefs to encourage new projects, which will, of course, benefit not just the oil industry itself but also the offshore supplies industry. These measures will help to keep together carefully nurtured UK capability for which further opportunities might arise.

The North Sea will continue to form an important part of the Scottish economy, and the very positive response to the tenth offshore licensing round is a mark of the industry's confidence about the future. But the difficulties last year did have a wider impact on the Scottish economy as a whole.

In the year to the third quarter of 1986, most of the Scottish manufacturing sector saw production slightly lower than in the previous twelve months. And whereas unemployment in the UK as a whole peaked in June 1986, and has fallen consistently since then, unemployment in Scotland continued to rise until January of this year, though since then the trend has been downwards. Last week's figures showed a record fall of 8,200 in the numbers out of work, and unemployment in Scotland is now at its lowest level since February 1986.

In short, the difficulties of the oil sector, which Scotland has suffered in common with other oil provinces throughout the world, have only temporarily masked the strong performance of the much larger non-oil economy.

So the future for the Scottish economy is bright. You have embraced the new technologies, new industries, and new opportunities in the service sector. And many of the more traditional industries which have been through a difficult spell are emerging reinvigorated. As the latest Quarterly Economic Commentary from the Fraser of Allander Institute said:

"Expansion is now more broadly based than before, with the expansion in export competitiveness ... spilling over into non-export sectors ... it is fair to conclude that prospects in Scottish manufacturing are significantly better than they have been for some time."

The economic background is propitious: steady growth, with low inflation; a stable exchange rate; and interest rates which - in real terms - are in line with the average of the major industrialised countries. It is a measure of the transformation in the economy that, for the first time for many years, it is generally acknowledged that the main threat to our continued success lies in potential adverse developments in the wider world economy.

But our economic success is based on much more than technical improvements in the performance of British businesses. It encompasses a radical change in the way we see ourselves as a nation.

It is now of the first importance that this new mood of self-confidence takes hold in those parts of the country which have seen the decline of their traditional industries, and are trying to attract and develop new ones. Looking inwards and dwelling on problems leads to demoralisation, which can put at risk the whole process of regeneration. Looking outwards and focussing on success is an essential part of economic recovery. This is particularly true here in Scotland. And there is a great deal of success to be proud of.

The 1980s have seen rapid economic changes in the UK as a whole, and Scotland in particular. The Government's aim has been to create the conditions in which business can seize the opportunities which have been presented. And the response of businesses, in all parts of the kingdom, has been remarkable. From being the sick man of Europe, we are leading the way.

The challenge for the future is to maintain this progress, and to spread its benefits wider still. This is the Government's aim for the years ahead, and I know that we can rely on the energies and skills of Scottish businesses as we go forward.

P7



FROM: A P HUDSON

DATE: 16 July 1987

MISS O'MARA

- cc PS/Chief Secretary
- PS/Financial Secretary
- PS/Paymaster General
- PS/Economic Secretary
- Sir P Middleton
- Sir T Burns
- Mr Monck
- Mr Byatt
- Mr Sedgwick
- Mr Burgner
- Mr Scholar
- Mr S J Davies
- Mr Culpin
- Mr P R C Gray
- Mr G White
- Mr Gilhooly
- Mr Pickford
- Mr L Hunt
- Mr MacAuslan (o/r)
- Mr Cropper
- Mr Tyrie
- Mr N Forman - MP

CHANCELLOR'S SPEECH ON UNEMPLOYMENT, 16 JULY

... I attach the final version. The Chancellor is most grateful for the work that went into the speech, particularly from EB, and by Mr MacAuslan and Mr Hunt in the early stages.

AH

A P HUDSON

289/7/1

**CHANCELLOR OF THE EXCHEQUER'S SPEECH TO BURY NORTH  
CONSERVATIVE ASSOCIATION ANNUAL DINNER, 16 JULY 1987**

**NEW JOBS FOR OLD**

Unemployment is firmly on the way down. Today's figures mean that the numbers out of work have fallen in each and every month for a year now. The total reduction is larger than in any year since records began. And unemployment is falling faster here than in any other industrial country. Youth unemployment and long-term unemployment are both coming down and unemployment today is lower than a year ago in every region of the United Kingdom.

But welcome as this is, I have no wish to disguise the fact that the number of people out of work is still far too high.

To understand why this is, we have to look behind the headline totals, break down the aggregate figures, and examine what is really happening on the ground. What sort of jobs have been lost, and in which parts of the country? What new jobs are emerging? And what sort of people is it who are unemployed?

It must be abundantly clear by now that the reason for high unemployment is not any lack of demand in the economy. We have already enjoyed a longer period of steady economic growth combined with low inflation than at any time since the War. Indeed, we now have the fastest rate of economic growth of all the major economies of the world. So it is clearly not a matter of inadequate demand. What, then, is it?

One reason why unemployment has been slow to come down lies in the rapid growth in the labour force over recent years. Though growth in the labour force will eventually lead to a similar growth in the number of people in work, the adjustment is seldom immediate. The dramatic increase in the numbers of school leavers and married women entering the job market in the 1980s helps to explain why, even though employment has been rising ever since March 1983,

unemployment went on increasing until last June. The peak increase in the labour force was between 1983 and 1984, when it grew by half a million; since then the rate of growth has been slowing down but it has not yet come to an end.

### The Changing Economy

Another important factor in the present high rate of unemployment lies in the changes that have taken place to the industrial structure of the country. The most notable of these has been the relative - and in some cases absolute - decline of traditional heavy industry and the growth of the service sector of the economy.

#### - Manufacturing in the 1970s

This country traditionally had a higher proportion of the workforce employed in manufacturing industries than most other major industrialised countries. Throughout the 1970s, the proportion here ranked second only to Germany among the summit seven - even though in terms of manufacturing industry's share of total national output, we were back in fifth place out of the seven. As this suggests, there was massive overmanning in British manufacturing industry in the 'seventies, as a result of which we became progressively less competitive and our share of world trade in manufactures steadily declined.

Clearly, if the British economy in general - and manufacturing industry in particular - were to succeed, this rake's progress had to come to an end. But the UK's failure to accept this in the 1970s, and the consequent attempts to prevent the necessary adjustments taking place, simply made the changes more acute and more difficult when they inevitably occurred.

The last world recession finally exposed the overmanning in much of our manufacturing industry. Of the two million jobs that were lost between 1979 and 1983, close to 1½ million were in manufacturing. Here in the North West, for example, where the problems of overmanning were compounded by excessive dependence on older industries whose golden age lay behind them, one manufacturing job in four was lost.

## - And the Recovery in the 1980s

During the 1980s the manufacturing sector has performed very much better. Output is now expanding fast, our share of world trade in manufactures has at long last ceased to fall, and productivity is rising rapidly - indeed, it has grown faster over the 1980s than in any of our major competitors. All regions are sharing in this success, including those which were hit hardest by the decline of traditional businesses. Scotland is among the world leaders in electronics. The West Midlands has picked up fast, particularly in the plastics industry and in instrument engineering. And here in the North West, not only are new industries becoming increasingly important, but many of the older industries are being revitalised as they embrace new technology. The textile industry is a case in point.

So the prospects for manufacturing in Britain have been transformed. But although manufacturing output has been on a rising trend ever since 1981, employment in the manufacturing sector continues to decline, albeit now at a much slower rate.

This is partly because the dramatic change in efficiency that has occurred means that fewer people are needed to produce a given amount. Given that we live in a highly competitive world, this development is wholly to be welcomed: efficient firms may employ fewer people - at least initially - but inefficient ones very soon employ none at all. And a more competitive manufacturing industry can only be good for jobs in the economy as a whole.

A further reason why rising output is combined with falling employment is that the nature of manufacturing is changing. Not only is it becoming increasingly capital-intensive, but many of the new industries are essentially knowledge-intensive, and require a different and better educated labour force than the older heavy industries.

### Contracting Out

Moreover, manufacturing companies are increasingly contracting out peripheral functions to specialist firms - another welcome



development, since these specialist firms are likely to do the job more efficiently. A survey of employment trends published last year found, for example, that one in three of the engineering companies covered had increased subcontracting between 1983 and 1985. Larger employers are increasingly contracting out such functions as transport and distribution.

For the official statistics this has the effect of apparently reducing employment in manufacturing, while increasing that in services, even though the nature of the work being done remains much the same.

But of course the growth of the service industries is much more broadly based than this, and has been a major feature of the 1980s. The number of people employed in service industries has risen by a million since 1979. For example, here in the North West, employment in hotels, catering and wholesale distribution is up by nearly 10 per cent, and in banking, finance, and insurance by over 20 per cent. Tourism in the North West employs over 150,000 people.

### Changing Patterns of Employment

Contracting out is only one example of the way the economy is becoming more diversified. It is one of the many ways in which employment patterns are adapting.

- More people are being employed in small firms, not least as many more new businesses start up, often choosing specialised niches in markets in which they have particular expertise. One study has estimated that firms employing fewer than 20 people created a million jobs in the period 1982-84.
- There are now three quarters of a million more self-employed people than in 1979 - an increase five times as great as over the whole of the previous thirty years.
- More part-time working is taking place, which suits both the needs of employers, and the preference of many people - particularly married women - for a part-time rather than a full-time job.

## Who are the Unemployed?

Looking at employment trends in detail thus reveals cross-currents which are still not sufficiently widely understood. Similarly, to get a fuller understanding of the problem of unemployment, we have to look at the circumstances of those who are unemployed, whether or not they are registered and claiming benefits. The annual Labour Force Surveys provide some interesting information. They certainly do not suggest that the claimant count understates the level of unemployment. Indeed, although the latest one, carried out in 1986, found that over 800,000 people were looking for work without being registered as unemployed, it also found well over a million who were on the count but were not actively looking for work.

Of these, 200,000 claimants admitted that they were actually in employment at some point during the week of the survey. In some cases, this may be perfectly legitimate. But it reinforces the substantial anecdotal evidence that a number of the registered unemployed are doing casual work in the black economy.

The survey also suggested that close to 1 million claimants were not actually seeking work at the time of the enquiry. Some of these are single parents, while others are older people who have in effect decided to retire early, before they reach pension age.

Among those not actively looking for work, there are undoubtedly some who have been unemployed for so long that they have given up hope of finding any sort of job. The Restart programme has been designed above all to help these people. But there are also those who claim that the jobs that are available would not be financially worth their while.

There are also a substantial number of people included in the unemployment count who face particular difficulties in competing for jobs: illiteracy, for example. Of the long term unemployed, about one in five cannot read and write well enough to fill most jobs; and about one in eight cannot write sufficiently well even to apply for a job. This alarming fact alone justifies the

initiatives, however controversial, the Government has announced to improve standards in the schools.

### The Way to More New Jobs

Meanwhile, the best news for the unemployed is that new jobs are continuing to come through, as they have been since 1983. Today's figures show that the employed labour force in Britain rose by 105,000 between the last quarter of last year and the first quarter of this. And the evidence comes not only from the official statistics. Look at the pages of job advertisements in newspapers all over the country: the Manchester Evening News last Saturday, for example, carried no fewer than 679 such advertisements, many of them for more than one job. But it is clear that the new jobs are not generally the old ones returning. They are in every sense new jobs. And the key to filling them, and to ensuring that unemployment continues to fall, is a properly functioning labour market.

#### - Pay

First and foremost, that means one where pay is linked to what the business can afford, rather than to notions such as the "going rate" for pay rises in any particular year.

Many companies have already linked a portion of their employees' pay directly to the profits of the company. They have generally found this a success: in good years, employees gain directly from the higher profits; in difficult years, pay costs are contained. To encourage the spread of profit related pay, I have introduced a tax relief in the Finance Bill which is now passing through the House of Commons.

The pay system could also be more flexible in other ways. For example, if wage rates better reflected the state of the labour market in different parts of the country, and conformed less closely to a national pattern, that would lead to more jobs, and help to attract firms to areas where unemployment is high.

But in the end it is up to employers themselves to devise pay systems which suit the needs of their firms. They are now in a much stronger position to do so. For much of the 1970s, they had to contend on the one hand with Government interference in pay settlements and on the other hand with overmighty trade unions. We have had no truck with incomes policy, and have reformed the trade unions so as to enable management to manage - to the immense benefit and relief of the overwhelming majority of trade union members.

But so long as average earnings continue to rise at three times the rate needed to maintain living standards, after taking account of tax and price changes, the scope for still greater reductions in unemployment is inevitably limited. The responsibility for correcting this lies fairly and squarely on the shoulders of employers, who must always keep a close eye on what their competitors overseas are doing.

#### **- Training**

A further aspect of a properly functioning labour market is that workers need the skills required for the new jobs. Government spending on training has increased substantially. The two year Youth Training Scheme offers high quality training to our young people. And the new Job Training Scheme offers practical training, on and off the job, for people who have been unemployed for more than six months. The Technical and Vocational Education Initiative, and the broader reforms of education that we are embarking upon, will help to ensure that young people have the skills they need to enter the world of work.

Again, the challenge now is for British industry to expand its own training schemes, which generally speaking fall well short of those in most of our major competitors. Greatly increased profitability means that most companies can now afford to do this. And spending extra money on training, rather than on higher pay, will be of much greater benefit in the long run to the business, the employee, and the unemployed person looking for a job.

## The Way Forward

The measures that we have introduced over the past eight years to encourage greater flexibility and increased efficiency will inevitably take time to have their full effect. But the benefit is now being felt. New businesses are starting up and new jobs are being created. There is every reason for hope. Certainly unemployment remains higher in some places than others. But these are generally the places which suffered most acutely from the loss of their traditional industries, and thus have had to make the biggest adjustments.

Above all, it is of the first importance that those areas hardest hit by the decline of older industries continue to believe in themselves, and to take a positive attitude to change. This is well seen within the North West. Here in Bury, there has been an enthusiastic spirit of self-help. The Bury Business Centre, started by a Conservative Council in 1984, now has its premises full of small businesses. The Bury Enterprise Centre has been involved in the creation of some 2000 jobs over the last five years, and about 325 new businesses. And unemployment has fallen steadily over the past year. By contrast, in much of Merseyside it is a very different story - despite far greater injections of taxpayers' money.

So long as present policies are maintained, so long as British industry continues to flourish, and so long as local leaders take a positive attitude towards economic change, I am confident that the scourge of unemployment will eventually be defeated.

P7

Final

INTERNATIONAL MONETARY FUND

Interim Committee Meeting

September 27, 1987

Statement by Mr. Nigel Lawson

(p.m. session)

CHANCELLOR'S SPEAKING NOTE FOR THE INTERIM COMMITTEE  
AFTERNOON SESSION  
SUNDAY 27 SEPTEMBER, 1987

MIDDLE-INCOME DEBTORS

ONE FEATURE WHICH HAS EMERGED CLEARLY FROM DISCUSSIONS IN THIS COMMITTEE IS THAT DEBT PROBLEMS DIFFER ENORMOUSLY BETWEEN COUNTRIES OR GROUPS OF COUNTRIES, AND WE MUST LOOK FOR DIFFERENT SOLUTIONS. THAT IS WHY WE HAVE, RIGHTLY, ADOPTED THE CASE-BY-CASE APPROACH, WHICH MUST CONTINUE.

WHILE THE DEBT BURDEN FOR MANY COUNTRIES HAS RISEN, THE BASIC OBJECTIVE OF THE DEBT STRATEGY REMAINS THE SAME: TO ENABLE THE DEBTOR COUNTRIES TO RESTORE THEIR ECONOMIES TO HEALTH AND TO REGAIN NORMAL ACCESS TO THE WORLD'S CAPITAL MARKETS.

FOR THE MIDDLE-INCOME DEBTORS, THIS IS A REALISTIC OBJECTIVE. WITH THEIR NATURAL AND HUMAN RESOURCES, AND THEIR INDUSTRIAL BASE, THEY HAVE THE CAPACITY TO REFORM THEIR ECONOMIES AND SERVICE THEIR DEBTS, PROVIDED THAT WORLD ECONOMIC GROWTH AND AN OPEN TRADING ENVIRONMENT ARE MAINTAINED.

TWO THIRDS OF THE DEBT OF THE MIDDLE-INCOME COUNTRIES AS A WHOLE IS OWED TO THE COMMERCIAL BANKS. THIS MEANS THAT THE MANAGEMENT OF DEBT PROBLEMS IS ABOVE ALL A MATTER BETWEEN THE DEBTOR COUNTRIES AND THE BANKS.

MANY SCHEMES HAVE BEEN PUT FORWARD FOR GLOBAL SOLUTIONS TO THE PROBLEMS OF DEBT, USUALLY INVOLVING DIRECTLY OR INDIRECTLY AN ASSUMPTION OF THE BANKS' RESPONSIBILITIES BY THE GOVERNMENTS OF INDUSTRIAL COUNTRIES. THIS IS NOT ON. IT IS FOR THE BANKS TO FACE UP REALISTICALLY TO THEIR RESPONSIBILITIES. I WELCOME WHOLE-HEARTEDLY THE SUBSTANTIAL INCREASES THAT MANY MAJOR BANKS HAVE MADE THIS YEAR IN THEIR PROVISIONS AGAINST



SOVEREIGN DEBT. THAT IS A PROPER COMMERCIAL RECOGNITION OF REALITY.

IT IS ALSO CONSISTENT WITH A MORE MARKET ORIENTATED APPROACH TO THE WAYS IN WHICH MIDDLE-INCOME DEBTORS CAN MEET THEIR FINANCIAL NEEDS. THE MARKETING OF DEBT, DEBT-EQUITY SWAPS, AND DEBT BUY-BACK SCHEMES ALL HAVE A GROWING ROLE TO PLAY. IT IS FOR THE BANKS AND THE DEBTOR COUNTRIES, POSSIBLY WITH THE HELP OF THE INTERNATIONAL FINANCIAL INSTITUTIONS, TO DECIDE IF AND HOW THEY APPLY IN EACH CASE.

I AM GLAD TO SEE A MORE WELCOMING ATTITUDE ON THE PART OF GOVERNMENTS OF MANY DEVELOPING COUNTRIES TO INWARD PRIVATE INVESTMENT. BUT FURTHER SUBSTANTIAL ENCOURAGEMENT BY THESE GOVERNMENTS IS NEEDED. THERE IS CLEARLY THE POTENTIAL FOR GREATER INVESTMENT FLOWS FROM THE INDUSTRIALISED COUNTRIES. JAPAN, WITH ITS HIGH RATE OF SAVING, PROVIDES AN OBVIOUS SOURCE. A HIGHER PROPORTION OF CAPITAL FLOWS TO THE DEVELOPING COUNTRIES SHOULD TAKE

FORMS IN WHICH RISKS ARE EXPLICITLY SHARED BETWEEN LENDERS AND BORROWERS.

FOR COUNTRIES SEEKING ADDITIONAL INFLOWS OF CAPITAL, THE APPROPRIATE POLICY FRAMEWORK MUST BE IN PLACE. BUT THE RECORD OF ADJUSTMENT TO DATE HAS BEEN MIXED. DESPITE ALL THE POLITICAL DIFFICULTIES, STRONGER ADJUSTMENT IS ESSENTIAL TO ATTRACT NEW INFLOWS. IN A FEW COUNTRIES, NOTABLY MEXICO, WE CAN ALREADY SEE THE EFFECT OF POLICY REFORMS IN STEMMING AND THEN REVERSING CAPITAL FLIGHT.

### THE IFIs

THE INTERNATIONAL INSTITUTIONS HAVE AN IMPORTANT ROLE IN HELPING TO RESOLVE DEBT PROBLEMS OF BOTH MIDDLE AND THE POOREST COUNTRIES, ABOVE ALL BY HELPING TO PUT IN PLACE THE CONDITIONS FOR SUSTAINABLE POLICIES TO ACCOMPANY THE PROVISION OF FINANCE. THE STRATEGY WE HAVE EVOLVED ENVISAGES AN INCREASING ROLE FOR THE WORLD BANK, AND A GENERAL CAPITAL INCREASE IS NOW URGENT. I THEREFORE WARMLY WELCOME THE ANNOUNCEMENT BY THE GOVERNMENT OF THE

UNITED STATES THAT THEY CAN NOW SUPPORT A SUBSTANTIAL GCI, AND I HOPE THAT IT CAN BE AGREED AND PUT INTO PLACE AS SOON AS POSSIBLE.

THE CHANGING ROLES OF THE BANK AND THE FUND HAVE INEVITABLY BROUGHT A SHIFT IN THE PATTERN OF LENDING. BUT LENDING FROM THE BANK AND FUND TOGETHER, IN NET TERMS, HAS REMAINED SUBSTANTIALLY POSITIVE, AND SHOULD CONTINUE TO BE SO.

MR. CHAIRMAN, THE DEBT STRATEGY HAS EVOLVED IN IMPORTANT WAYS SINCE WE LAST MET. IT IS EVEN CLEARER NOW THAN IT WAS THEN THAT VERY DIFFERENT APPROACHES ARE NEEDED FOR DIFFERENT GROUPS OF COUNTRIES. I WELCOME THE INCREASED FLEXIBILITY WITH WHICH THESE PROBLEMS ARE BEING APPROACHED.

POOREST, AND MOST INDEBTED, COUNTRIES

THERE IS NOW WIDESPREAD AGREEMENT THAT THE PROBLEMS ARE DIFFERENT FOR THE POOREST AND MOST HEAVILY-INDEBTED COUNTRIES, ESPECIALLY IN SUB-SAHARAN AFRICA, WHOSE DEBT IS MOSTLY TO GOVERNMENTS AND TO THE IFIs. THESE COUNTRIES' PROBLEMS ARE UNIQUELY DIFFICULT AND NEED SPECIAL TREATMENT.

AT OUR LAST MEETING I LAUNCHED AN INITIATIVE WITH THREE PROPOSALS FOR ADDITIONAL HELP TO THESE COUNTRIES, PROVIDED THEY ARE PURSUING SATISFACTORY ADJUSTMENT POLICIES.

- FIRST, THAT AID LOANS SHOULD BE CONVERTED INTO OUTRIGHT GRANTS;
- SECOND, THAT WE SHOULD GIVE LONGER REPAYMENT AND GRACE PERIODS IN RESCHEDULING LOANS;
- AND THIRD, THAT WE SHOULD LOWER THE INTEREST RATES CHARGED ON THESE RESCHEDULINGS TO WELL BELOW MARKET LEVELS.

THERE HAS BEEN VERY CONSIDERABLE PROGRESS ON THE FIRST TWO OF THESE PROPOSALS. MANY COUNTRIES INCLUDING THE UK HAVE ALREADY WRITTEN OFF AID LOANS; AND CREDITOR COUNTRIES IN THE PARIS CLUB HAVE AGREED LONGER REPAYMENT AND GRACE PERIODS FOR RESCHEDULED LOANS TO FIVE COUNTRIES.

IT IS THE THIRD ELEMENT IN MY PROPOSALS, REDUCED INTEREST RATES, THAT HAS PROVED THE MOST DIFFICULT FOR OTHER CREDITOR COUNTRIES TO ACCEPT. BUT IT IS ABSOLUTELY ESSENTIAL. OTHERWISE, EVEN WITH GENEROUS GRACE PERIODS, THE BURDEN OF DEBT WILL CONTINUE TO RISE RAPIDLY. THESE COUNTRIES DO NOT HAVE THE RESOURCES EVEN TO MEET THE INTEREST BURDEN ON THEIR DEBTS. AT SOME POINT, WE WILL HAVE TO FACE THE INEVITABILITY OF GIVING RELIEF; SOME BUDGETARY COST TO CREDITOR COUNTRIES IS UNAVOIDABLE. TO DELAY GIVING THAT RELIEF MERELY PROLONGS THE UNCERTAINTIES WHICH THESE VERY POOR COUNTRIES FACE, AND MAKES THEIR STRUGGLE TO ADJUST EVEN MORE PAINFUL.

LAST WEEK, THE COMMONWEALTH FINANCE MINISTERS' MEETING IN BARBADOS ENDORSED MY PROPOSALS AND - I QUOTE

FROM THE COMMUNIQUE - "STRONGLY RECOMMENDED THEM TO THE CREDITOR COUNTRIES FOR EARLY APPROVAL".

COMPLEMENTARY PROPOSALS HAVE BEEN PUT FORWARD BY THE FUND AND THE BANK. THE MANAGING DIRECTOR HAS PROPOSED A SUBSTANTIAL ENLARGEMENT OF THE RESOURCES OF THE STRUCTURAL ADJUSTMENT FACILITY, SO AS TO PROVIDE MORE CONCESSIONARY LENDING TO THE POORER COUNTRIES. I WELCOME THIS APPROACH. IT HAS TO BE SEEN IN TANDEM WITH MY OWN PROPOSAL FOR DEALING WITH BILATERAL OFFICIAL DEBTS. I BELIEVE THAT MY PROPOSALS COULD AND SHOULD BE LINKED TO THE SAF ENLARGEMENT, BY THE DEBT-DISTRESSED COUNTRIES BEING GIVEN SPECIAL ACCESS TO THE EXTRA SAF FUNDS. THE UK STANDS READY TO MAKE A CONTRIBUTION ON THE BASIS THAT ALL MAJOR COUNTRIES DO SO AS WELL.

MR. CHAIRMAN, SPECIFIC PROPOSALS FOR HELPING THE POOREST COUNTRIES WERE WELCOMED AT THE VENICE SUMMIT. A CONCLUSION WAS URGED BY THE END OF THIS YEAR. IT IS VITAL WE DISCHARGE THIS RESPONSIBILITY.



*Sir T. Burns 14/9/87*  
(P7)

# H. M. TREASURY

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30 September 1987

THE CHANCELLOR OF THE EXCHEQUER'S SPEECH TO THE IMF

Attached is the text of the speech delivered in Washington today by the Rt Hon Nigel Lawson MP, Chancellor of the Exchequer, at the Joint Annual Meeting of the International Monetary Fund and the International Bank for Reconstruction and Development.

PRESS OFFICE  
H M TREASURY  
PARLIAMENT STREET  
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55/87

BOARD OF GOVERNORS 1987 ANNUAL MEETINGS, WASHINGTON DC  
STATEMENT BY THE RT.HON. NIGEL LAWSON MP  
CHANCELLOR OF THE EXCHEQUER  
GOVERNOR OF THE FUND FOR THE UNITED KINGDOM  
AT THE JOINT ANNUAL MEETINGS, SEPTEMBER 30, 1987

.....

I WELCOME THE PROGRESS THAT WE HAVE MADE AT THESE MEETINGS ON A NUMBER OF ISSUES OF GREAT IMPORTANCE. WE HAVE REAFFIRMED THE LOUVRE AGREEMENT. THERE IS NOW FULL SUPPORT FOR AN EARLY AND SUBSTANTIAL GENERAL CAPITAL INCREASE FOR THE WORLD BANK. AND THERE IS INCREASING RECOGNITION THAT WITHIN THE GENERAL DEBT STRATEGY, SPECIAL ACTION IS REQUIRED TO HELP THE VERY POOREST AND MOST HEAVILY INDEBTED COUNTRIES, PARTICULARLY IN SUB-SAHARAN AFRICA.

AT THE MEETINGS OF THE INTERIM AND DEVELOPMENT COMMITTEES THIS APRIL, I PUT FORWARD A THREE-POINT PROPOSAL FOR ASSISTING THESE COUNTRIES, PROVIDED THEY PURSUE APPROPRIATE ADJUSTMENT POLICIES: THE CONVERSION OF AID LOANS INTO OUTRIGHT GRANTS; LONGER REPAYMENT AND GRACE PERIODS ON PARIS CLUB RESCHEDULINGS; AND REDUCTIONS IN THE RATES OF INTEREST ON THOSE RESCHEDULINGS.



THE MANAGING DIRECTOR OF THE INTERNATIONAL MONETARY FUND AND THE PRESIDENT OF THE WORLD BANK HAVE PUT FORWARD COMPLEMENTARY PROPOSALS FOR HELPING THE POOREST COUNTRIES BY CONCESSIONAL INTEREST RATES, INCLUDING A SUBSTANTIAL INCREASE IN THE SIZE OF THE IMF'S STRUCTURAL ADJUSTMENT FACILITY. I SUPPORT THESE PROPOSALS, AND BELIEVE THAT HEAVY INDEBTEDNESS SHOULD BE A MAJOR FACTOR IN DETERMINING THE ALLOCATION OF FUNDS UNDER ANY ENLARGEMENT OF THE SAF.

IT IS OF THE FIRST IMPORTANCE THAT WE MAKE A REAL EFFORT TO REACH AGREEMENT ON ALL THESE PROPOSALS AT THE EARLIEST POSSIBLE DATE.

## THE UK ECONOMY

I NOW TURN TO THE EXPERIENCE OF MY OWN COUNTRY DURING THE PAST YEAR. SINCE THE SHARP FALL IN THE OIL PRICE IN 1986 THE GROWTH RATE OF THE UK ECONOMY, SO FAR FROM SLOWING DOWN AS WAS EXPECTED, HAS ACTUALLY PICKED UP. AT THE SAME TIME, THE GROWTH RATE FOR THE MAJOR INDUSTRIALISED COUNTRIES AS A WHOLE HAS BEEN BELOW EXPECTATIONS. AT FIRST SIGHT THIS SEEMS PARADOXICAL. THE INDUSTRIALISED COUNTRIES IN AGGREGATE WERE SIGNIFICANT BENEFICIARIES FROM LOWER OIL PRICES WHEREAS THE UK, AS A MAJOR OIL PRODUCER AND EXPORTER, STOOD TO LOSE SIGNIFICANTLY.

WHAT HAS HAPPENED IS THAT THE UK ECONOMY HAS ADJUSTED MORE SMOOTHLY TO THE FALL IN OIL PRICES THAN MANY THOUGHT POSSIBLE. THE LATEST IMF FORECAST PUTS UK GROWTH AT 3.4 PER CENT THIS YEAR--THE FASTEST GROWTH OF ALL THE MAJOR INDUSTRIALISED COUNTRIES. AND UK MANUFACTURING PRODUCTIVITY, CURRENTLY RISING AT ABOUT 6 PER CENT, HAS CONTINUED TO EXCEED EXPECTATIONS, THUS CONTAINING THE GROWTH OF UNIT LABOUR COSTS.

THE UK'S STRONG GROWTH PERFORMANCE HAS NOT BEEN BROUGHT ABOUT BY ANY FISCAL STIMULUS. THE PUBLIC SECTOR BORROWING REQUIREMENT HAS IN FACT BEEN REDUCED TO LESS THAN 1 PER CENT OF GDP. WE HAVE BEEN ABLE TO BRING DOWN TAX RATES BY MAINTAINING A DECLINING PATH FOR PUBLIC EXPENDITURE AS A PROPORTION OF GDP. NOR HAS THERE BEEN ANY RELAXATION OF MONETARY POLICY. INTEREST RATES HAVE BEEN HELD AT LEVELS NECESSARY TO MAINTAIN SOUND ANTI-INFLATIONARY CONDITIONS. IN SHORT, IT IS THE ENTERPRISE ECONOMY THAT HAS DONE THE TRICK. ONE CONSEQUENCE OF THIS IMPROVED PERFORMANCE HAS BEEN A SIGNIFICANT DROP IN UNEMPLOYMENT, WHICH HAS FALLEN BY 400,000 OVER THE LAST 14 MONTHS.

THE STRONG GROWTH OF UK OUTPUT AND DEMAND HAS CAUSED SOME TO SUGGEST THAT THE UK ECONOMY IS IN DANGER OF OVERHEATING, WHILE OTHERS ARE FORECASTING A SLOWDOWN. SOME MANAGE TO COMBINE BOTH PREDICTIONS. BUT WHILE, AS IN MOST COUNTRIES, INFLATION IS A BIT HIGHER THAN LAST YEAR WHEN THE IMPACT OF FALLING OIL PRICES WAS GREATEST, THERE HAS BEEN NO SIGNIFICANT CHANGE IN UNDERLYING INFLATIONARY PRESSURE.

THE UK IS NOW WELL INTO ITS SEVENTH YEAR OF STEADY GROWTH AT 3 PER CENT A YEAR. DURING THAT PERIOD THERE HAVE BEEN MINOR FLUCTUATIONS, AND AFTER THE SLIGHT SPURT THIS YEAR, I WOULD EXPECT SOMETHING CLOSER TO THE 3 PER CENT AVERAGE RATE NEXT YEAR.

### THE BACKGROUND TO THE LOUVRE

I NOW TURN TO THE EVOLUTION OF EXCHANGE RATE POLICY.

FOR THE FIRST 25 YEARS AFTER THE WAR, EXCHANGE RATE STABILITY WAS ACHIEVED THROUGH THE BRETTON WOODS SYSTEM. THIS FORMED A CORNERSTONE OF THE POST-WAR ECONOMIC ORDER, NOT LEAST AS A FORCE FOR FINANCIAL DISCIPLINE. BUT IT BEGAN TO BREAK DOWN IN THE LATE 1960s, AND BY THE EARLY 1970s IT HAD COLLAPSED ALTOGETHER.

THEREAFTER, WITH COUNTRIES PURSUING DIVERGENT ECONOMIC POLICIES, AND MANY SUFFERING FROM HIGH AND VOLATILE INFLATION, A SYSTEM OF FLOATING EXCHANGE RATES WAS VIRTUALLY INESCAPABLE. INDEED MANY AT THE TIME BELIEVED THIS NEW FLEXIBILITY TO BE DESIRABLE.

WITH HINDSIGHT, SOME OF THE ARGUMENTS FOR FREE FLOATING SEEM MUCH LESS COMPELLING. AND THE BELIEF THAT MARKETS WOULD PROVIDE A STABILISING INFLUENCE, THROUGH THE OPERATIONS OF MEDIUM-TERM SPECULATORS, HAS NOT BEEN BORNE OUT.

IN PARTICULAR, WE HAVE SEEN WILD GYRATIONS IN THE DOLLAR, THAT HAVE CLEARLY NOT BEEN A REFLECTION OF ECONOMIC FUNDAMENTALS, WHICH ARE ESSENTIALLY SLOW-MOVING. FEW COULD SERIOUSLY ARGUE THAT TWO DEUTSCHEMARKS TO THE DOLLAR WAS "CORRECT" IN 1979, AND AGAIN AT THE END OF 1986, AND YET THAT THREE DEUTSCHEMARKS TO THE DOLLAR WAS "CORRECT" IN 1985.

MOREOVER, THESE GYRATIONS HAVE DAMAGED GROWTH IN WORLD TRADE. BUSINESSES HAVE HAD TO DIVERT SCARCE MANAGEMENT TIME AND SKILLS TO COPING WITH CURRENCY FLUCTUATIONS, RATHER THAN IMPROVING COMPANY PERFORMANCE. AND THE MAJOR UNCERTAINTIES ABOUT EXCHANGE RATE MOVEMENTS INHIBITED RISK TAKING AND REQUIRED A SWITCHING OF RESOURCES AT A PACE THAT WAS WHOLLY UNREALISTIC.

THE EXPLANATION FOR THESE GYRATIONS IN THE DOLLAR DERIVES IN LARGE PART FROM THE NATURE OF THE FOREIGN EXCHANGE MARKETS. WE NOW HAVE GLOBAL 24-HOUR MARKETS IN WHICH TURNOVER HAS INCREASED DRAMATICALLY, WITH ONLY A SMALL PART OF THAT RELATED TO COMMERCIAL TRANSACTIONS.

THIS PRESENTS PARTICULARLY ACUTE PROBLEMS FOR THE DOLLAR, WHICH STILL DOMINATES THE WORLD'S MONEY MARKETS. IN 1986, ON THE LONDON FOREIGN EXCHANGE MARKET, 97 PER CENT OF ALL TRANSACTIONS WERE IN DOLLARS.

OF COURSE, ALL FINANCIAL MARKETS HAVE A CERTAIN AMOUNT OF SPECULATIVE FROTH. BUT TO FUNCTION WELL THEY NEED SOME PLAYERS TO TAKE A LONGER VIEW, AND SO PROVIDE A STABILISING INFLUENCE. IN FOREIGN EXCHANGE MARKETS THEY HAVE BEEN CONSPICUOUS BY THEIR ABSENCE.

THIS MEANS THAT ONCE THE DOLLAR STARTS TO MOVE IN ONE DIRECTION, IT CAN CONTINUE IN THE SAME DIRECTION FOR MONTHS AND EVEN YEARS, EVEN IF THERE IS A GENERAL CONSENSUS THAT THE RATE IS OUT OF LINE. THIS IS WHAT HAPPENED IN 1984 AND EARLY 1985. ALMOST EVERYBODY AGREED THAT THE DOLLAR WAS OVERVALUED, AND THAT, IN THE LONG RUN, IT WAS BOUND TO FALL. BUT THEY CONTINUED TO BUY DOLLARS IN THE BELIEF THAT, IN THE SHORT RUN, IT WOULD MOVE EVEN HIGHER--WHICH IS, OF COURSE, WHAT CONSEQUENTLY OCCURRED.

THE RESULT IS THAT TRENDS HAVE BEEN GREATLY MAGNIFIED. CAPITAL MOVEMENTS HAVE GENERATED FLUCTUATIONS IN THE DOLLAR; BUT EQUALLY, FLUCTUATIONS IN THE DOLLAR HAVE THEMSELVES GENERATED FURTHER CAPITAL MOVEMENTS. THIS IS HOW EXCHANGE RATES HAVE OFTEN ACQUIRED A MOMENTUM OF THEIR OWN, WHICH HAS NOT BEEN REVERSED UNTIL THEY HAVE REACHED EXTREME LEVELS OF OVER- OR UNDER-VALUATION.

#### BACKGROUND TO PLAZA

IT WAS A GROWING CONCERN ABOUT THIS PROCESS THAT LED TO A SMALL GROUP OF US TO MEET IN THE PLAZA HOTEL IN SEPTEMBER 1985. WE SHARED THREE PERCEPTIONS.

- FIRST, THAT THE VARIATIONS IN EXCHANGE RATES HAD PROVED DAMAGING.
- SECOND, THAT THE IMMEDIATE PROBLEM WAS THAT THE DOLLAR WAS MUCH TOO HIGH.
- AND THIRD, THAT THE TIME WAS RIGHT FOR THE AUTHORITIES OF THE MAJOR COUNTRIES TO GIVE THE MARKETS A CLEAR LEAD.



THE PLAZA AGREEMENT MARKED AN IMPORTANT STEP TOWARDS A MORE MANAGED SYSTEM. IN PRIVATE, WE DISCUSSED THE SCALE OF FALL WE SAW AS DESIRABLE, AND ALTHOUGH NO FIGURES WERE GIVEN IN PUBLIC, EVERYONE WAS AWARE THAT WE WERE LOOKING FOR SUBSTANTIAL CHANGES. WE AGREED TO COOPERATE TO BRING THAT ABOUT. AND THAT AGREEMENT PLAYED AN IMPORTANT ROLE IN SECURING A CONTINUING FALL IN THE DOLLAR OVER THE SUCCEEDING 15 MONTHS.

THE LOUVRE

THE LOUVRE ACCORD EARLIER THIS YEAR MARKED ANOTHER IMPORTANT STEP FORWARD--PLAZA II, AS I CALLED IT AT THE TIME TO EMPHASISE THE CONTINUITY. BY THEN THE BROAD OBJECTIVES AGREED AT PLAZA HAD BEEN ACHIEVED. THE YEN AND THE DEUTSCHE MARK HAD APPRECIATED BY AS MUCH AS 50 PER CENT OR SO AGAINST THE DOLLAR.

WE AGREED THAT, GIVEN THE POLICIES BEING FOLLOWED, THE DOLLAR WAS BY THEN BROADLY IN LINE WITH ECONOMIC FUNDAMENTALS AND THAT THE INTERESTS OF THE WORLD ECONOMY WOULD BEST BE SERVED BY A PERIOD OF STABILITY, TO ALLOW TIME FOR THE MAJOR ECONOMIES TO ADJUST TO THE EXCHANGE

RATE

CHANGES THAT HAD OCCURRED. WE WERE NOT, OF COURSE, THINKING IN TERMS OF RIGID EXCHANGE RATES, BUT WE DID DISCUSS THE SCALE OF FLUCTUATION, AROUND THE THEN CURRENT LEVELS, WHICH WE WOULD NOT WISH TO SEE EXCEEDED. FIGURES WERE AGREED IN PRIVATE, BUT NOT, OF COURSE, REVEALED IN PUBLIC.

IN SPITE OF WIDESPREAD SCEPTICISM WHEN IT WAS FIRST CONCLUDED SEVEN MONTHS AGO, THE AGREEMENT HAS PROVED A SUCCESS.

#### MANAGED FLOATING

THE MOVE TO MANAGED FLOATING HAS BEEN MADE POSSIBLE BY TWO FUNDAMENTAL CHANGES:

- FIRST, WE HAVE AT LAST RETURNED TO A WORLD OF LOW INFLATION. THE AVERAGE INFLATION RATE FOR THE MAJOR SEVEN ECONOMIES HAS FALLEN FROM 12 PER CENT IN 1980 TO ABOUT 3 PER CENT TODAY. IN THE PROCESS INFLATION DIFFERENTIALS HAVE BEEN NARROWED CONSIDERABLY.
  
- SECOND, THERE IS NOW A CLEAR CONSENSUS AMONG THE MAJOR COUNTRIES ABOUT THE APPROACH TO ECONOMIC POLICY. AND WE ALL AGREE ON THE NEED FOR A GREATER RELIANCE ON MARKET MECHANISMS WITHIN THE FRAMEWORK OF A FIRM MONETARY AND FISCAL POLICY.

WE HAVE BEEN ABLE TO MAKE THIS REGIME WORK  
BECAUSE:

- WE HAVE CHOSEN THE RIGHT TIME TO GIVE A LEAD TO THE MARKETS. IN THIS SENSE WE HAVE BEEN WORKING WITH, RATHER THAN AGAINST, THE GRAIN OF THE MARKETS.
- WE HAVE BEEN PREPARED TO COMMIT OURSELVES PUBLICLY TO APPROPRIATE AND CONSISTENT DOMESTIC POLICIES.
- IN PARTICULAR, WE HAVE ALL BEEN PREPARED IN PRACTICE TO GIVE SIGNIFICANT WEIGHT TO EXCHANGE RATES IN THE CONDUCT OF MONETARY POLICY.

- WE HAVE BEEN PREPARED TO BACK UP OUR AGREEMENT WITH CO-ORDINATED INTERVENTION, SOMETIMES ON A SUBSTANTIAL SCALE.
  
- WE HAVE DELIBERATELY NOT REVEALED DETAILS OF OUR ARRANGEMENTS. AND WE HAVE WORKED WITHIN MARGINS OF A SIZE SUFFICIENT TO ALLOW US THE NECESSARY TACTICAL ROOM FOR MANOEUVRE.

A REGIME FOR THE FUTURE

I BELIEVE THAT WE CAN AND SHOULD USE THE EXPERIENCE WE HAVE GAINED TO BUILD A MORE PERMANENT REGIME OF MANAGED FLOATING. I DO NOT SEE THE PAST TWO YEARS SIMPLY AS A TEMPORARY PHASE. OUR OBJECTIVES SHOULD BE CLEAR: TO MAINTAIN THE MAXIMUM STABILITY OF KEY EXCHANGE RATES, AND TO MANAGE ANY CHANGES THAT MAY BE NECESSARY IN AN ORDERLY WAY.

LET ME MAKE IT CLEAR THAT I AM NOT SUGGESTING THAT WE CAN OR SHOULD RETURN TO BRETTON WOODS. THAT SYSTEM WAS UNDERMINED BY ITS RIGIDITY; THE MARGINS WERE TOO NARROW; IT REQUIRED A PREDICTABLE AND MECHANICAL RESPONSE FROM THE AUTHORITIES THAT MADE THEM AN EASY TARGET; NECESSARY REALIGNMENTS WERE POSTPONED TOO LONG AND CONSEQUENTLY, WHEN THEY CAME, THEY WERE INEVITABLY LARGE.

FOR THE FUTURE, IT IS IMPORTANT, THEREFORE, THAT WE CONTINUE TO KEEP AN ADEQUATE DEGREE OF FLEXIBILITY IN TERMS OF THE WIDTH OF THE BANDS WITHIN WHICH CURRENCIES ARE ABLE TO FLUCTUATE. AND, IF AND WHEN THE TIME COMES TO ADJUST ONE OF THE RATES, THAT ADJUSTMENT SHOULD BE MADE BY MOVING THE MIDPOINT WITHIN THE CONFINES OF THE EXISTING RANGE. THIS MEANS THAT THE MARKETS ARE NOT GIVEN A ONE-WAY BET, AND THE AUTHORITIES RETAIN TACTICAL FLEXIBILITY.

AS I HAVE ALREADY EMPHASISED, WHAT MADE THE PLAZA AND LOUVRE AGREEMENTS POSSIBLE WAS THAT THE COUNTRIES PARTICIPATING WERE, AND REMAIN, IN EFFECT, MEMBERS OF AN ANTI-INFLATIONARY CLUB, WITH A CLEAR COMMITMENT TO TAKING WHATEVER STEPS ARE NECESSARY TO CURB THEIR OWN INFLATION. IT IS VITAL THAT THAT COMMITMENT CONTINUES, INDIVIDUALLY AND COLLECTIVELY. A RESURGENCE OF INFLATION IN ANY INDIVIDUAL COUNTRY WOULD MAKE IT DIFFICULT FOR THAT COUNTRY TO REMAIN WITHIN THE CLUB

AT THE SAME TIME, WE MUST ALSO ENSURE THAT THERE IS NO PERSISTENT INFLATIONARY (OR FOR THAT MATTER DEFLATIONARY) BIAS FOR THE GROUP AS A WHOLE. THIS CAN BE HELPED BY:

- THE DEVELOPMENT OF INDICATORS FOR THE GROUP AS A WHOLE; THESE WILL BE MAINLY FINANCIAL BUT SPECIAL ATTENTION SHOULD ALSO BE GIVEN TO THE TREND OF WORLD COMMODITY PRICES;
- A NOMINAL FRAMEWORK FOR POLICY, IN TERMS EITHER OF A PATH FOR GDP GROWTH FOR THE GROUP AS A WHOLE, OR ONE FOR THE AVERAGE INFLATION RATE;
- AND A MEDIUM-TERM PERSPECTIVE WHEN SETTING OUT THE PATH AND IN GAUGING ACTUAL PERFORMANCE. WE SHOULD NOT BECOME INVOLVED IN AN EXERCISE IN SHORT-TERM FINE TUNING.

IN RECENT MEETINGS WE HAVE PUT A LOT OF EFFORT INTO DEVELOPING PERFORMANCE INDICATORS FOR INDIVIDUAL COUNTRIES. I HAVE TO SAY THAT I HAVE CONSIDERABLE DOUBTS WHETHER WE CAN USEFULLY TAKE THAT EXERCISE MUCH FURTHER. I BELIEVE IT WOULD BE FAR MORE USEFUL TO DEVOTE

OUR EFFORTS TO MONITORING THE PERFORMANCE OF THE GROUP AS A WHOLE, SO THAT WE CAN ENSURE THAT WE MAINTAIN THE CORRECT NON-INFLATIONARY STANCE OF POLICY.

CURRENT ACCOUNT IMBALANCES

SOME FEARS HAVE BEEN EXPRESSED THAT THE LOUVRE AGREEMENT WILL BE UNDERMINED BY THE PERSISTENCE OF CURRENT ACCOUNT IMBALANCES BETWEEN THE MAJOR COUNTRIES. I DO NOT BELIEVE THIS NEED BE SO.

WHAT WE ARE SEEING IS NOT ALTOGETHER SURPRISING. IT IS THE FAMILIAR J-CURVE EFFECT, AND ALTHOUGH THE IMBALANCES REMAIN LARGE, TRADE VOLUMES ARE ADJUSTING.

IN ANY CASE, THERE IS NO LAW THAT DICTATES THAT THE CURRENT ACCOUNTS OF THE MAJOR INDUSTRIAL COUNTRIES SHOULD ALWAYS BE IN BALANCE. WE HAVE AN INTEGRATED WORLD ECONOMY AND WE ENCOURAGE THE FREE FLOW OF CAPITAL AND GOODS. CLEARLY THERE ARE LIMITS TO THE ACCUMULATED EXTERNAL LIABILITIES OR ASSETS THAT CAN BE SUSTAINED

WITHOUT CREATING MAJOR ANXIETIES FOR CAPITAL MARKETS, BUT INVESTMENT OPPORTUNITIES AND SAVINGS PROPENSITIES INEVITABLY DIFFER FROM COUNTRY TO COUNTRY AND IT IS NATURAL FOR THIS TO PRODUCE SUBSTANTIAL, AND OFTEN SUSTAINED, CAPITAL ACCOUNT FLOWS. THESE FLOWS NECESSARILY HAVE THEIR COUNTERPARTS IN CURRENT ACCOUNT SURPLUSES AND DEFICITS.

THE PRESENT COMBINATION OF DEFICITS AND SUPPLUSES HAS EMERGED OVER SEVERAL YEARS DURING WHICH THE GROWTH OF DOMESTIC DEMAND IN GERMANY AND JAPAN HAS BEEN CONSISTENTLY BELOW THE GROWTH OF OUTPUT, WHILE IN THE UNITED STATES IT HAS BEEN CONSISTENTLY ABOVE. THE PROCESS OF UNWINDING THE IMBALANCES REQUIRES A REVERSAL OF THE DIFFERENCES BETWEEN DOMESTIC DEMAND AND OUTPUT IN THOSE COUNTRIES. THIS IS BOUND TO TAKE TIME TO COMPLETE, BUT --AND THIS IS IMPORTANT--IT HAS NOW BEGUN.

IT WOULD BE A SERIOUS MISTAKE TO SEEK A SHORT CUT BY A FURTHER DOLLAR DEPRECIATION. IT WAS UNDOUBTEDLY NECESSARY TO CORRECT THE HUGE MISALIGNMENT OF THE DOLLAR IN 1985. BUT THERE IS NO CASE FOR GOING TO THE OPPOSITE EXTREME OF AN ARTIFICIALLY LOW DOLLAR. THE BENEFITS TO THE CURRENT ACCOUNT WOULD BE SMALL COMPARED TO THE DAMAGE TO US INFLATION AND THE DISLOCATION TO THE WORLD ECONOMY. THE MAIN LESSON FROM RECENT YEARS IS THAT WE SHOULD AVOID EXCHANGE RATE MISALIGNMENTS, NOT ENCOURAGE THEM.



CONCLUSION

IN CONCLUSION, I BELIEVE THAT EXTERNAL STABILITY SHOULD NOW COMPLEMENT THE INTERNAL FINANCIAL STABILITY THAT WE HAVE ALREADY ACHIEVED. IT WILL REMEDY A MAJOR WEAKNESS IN THE WORLD FINANCIAL ORDER AND PROVIDE A SOUNDER BASIS FOR THE PROSPERITY WE ALL SEEK.