PO-CH/NL/0288
PART A

Part. A.

CONFIDENTIAL

(Circulate under cover and notify REGISTRY of movement)

APPOINTMENTS - IN - CONFIDENCE

Begins: 6/2/87.
Ends: 15/10/87.

PO -CH /NL/0288

PART A

PO -CH /NL/0288
PART A

Chancellor's (Lawson) Papers:

THE TREASURY AND CIVIL
SERVICE SELECT COMMITTEE
1987 PAPERS

Disposal Directions: 25 Years

[signature]
18/10/95.

CE50

COVERING CONFIDENTIAL

Alex - Does C need to see

FROM: MISS C EVANS
DATE: 6 FEBRUARY 1987

CR6/2

MR TURNBULL
MISS PEIRSON
MR ODLING-SMEE
MR EDWARDS
MR KELLY
MR PIRIE
MR GIEVE
MR PRATT
MR MOWL

cc Chancellor of the Exchequer
Chief Secretary
Financial Secretary
Mr F E R Butler
Mr Scholar, Mr Luce
Miss O'Mara
Mr Instone

TCSC: DRAFT REPORT ON THE PEWP

I attach a confidential draft of the TCSC report on the PEWP. The Committee meet to agree the report at 4pm on Monday and have asked that we return the draft by 2pm. To meet the Committee's deadline could I have any amendments, marked clearly in red please by 12 noon on Monday. We need to check for accuracy and correct any misrepresentations - not to respond to the Committee's points at this stage.

Phoned Andrew Turnbull - will produce ASAP

C Evans

MISS C EVANS

Ch

This is pretty dire (especially paras 8-11).

Only good bit is para 46.

AA

Cathy ✓ Please arrange X - a consultation with the Report with all. Alex

For the most part, we can leave the Rep. to wallow in its own folly; the report will receive much attention, I would guess. But we will need a good, crisp, rebuttal of X, & I would like to see a cockshy ASAP.

N

2133/012

c/ content
Is this what you had in mind?
CR 9/2

FROM: A Turnbull
DATE: 9 February 1987

CHANCELLOR OF THE EXCHEQUER

PS I assume you wanted this for our response when the TCSC report is published. But, officials can feed this thought in now (by 3pm) when commenting over the prose on the draft - but probably won't make much difference!

cc CST
Mr F E R Butler
Mr Odling-Smee
Mr Pirie
Mr Gieve
Miss Evans

TCSC DRAFT REPORT: ASSET SALES

I understand that, in general, you wish the Treasury to adopt the position of allowing the TCSC Report to remain largely uncorrected at this stage. You have, however, asked for a rebuttle of the opening of paragraph 55 to be prepared. I suggest the following:

> "In the past, the Committee has argued that receipts from sales of assets should not be treated on all fours with other receipts. The Government accepts this and takes account of the differing impact on demand and on monetary conditions of sales of assets in setting fiscal policy. The decision not to allow local authorities to spend immediately all additional capital receipts is fully consistent with this. In criticising the Government position, the Committee is adopting a position which is inconsistent with their earlier argument."

2. I would be grateful to know whether you and others are content with this line.

AT

A TURNBULL

Thanks. I think the rebuttal is CST's reaction, but think that this formulation isn't quite clear enough. The point is that we (& surely the TCSC) are concerned about controlling public spending, & it cannot be right to authorise a splurge of additional spending in a year X simply because council house receipts are high that year (or have been in the past), least of all [illegible]

NL [illegible] give the TCSC's [illegible] of asset sales

005/2763

Papers PS

FROM: JILL RUTTER

DATE: 10 February 1987

MR TURNBULL

cc:
PS/Chancellor (Mrs Ryding)
Mr F E R Butler
Mr Odling-Smee
Mr Pirie
Mr Gieve
Miss Evans

C/ This seems sensible Content? CR 10/2

Once the Report is published. This will be needed as CST agrees [illegible]

TCSC DRAFT REPORT: ASSET SALES

The Chief Secretary has seen the exchanges between you and Mrs Ryding over the TCSC Draft Report.

2 The Chief Secretary does not think that we should make any attempt to get the TCSC to modify their Report at this stage. Rather he thinks it would be better to reserve the material for use in the debate and not give the TCSC advance warning so that they can group to attack this line.

The question at issue is not whether we try and get the TCSC to modify the Report (I do not think it is clear that we have tried to do this). What is at issue is whether we will need to make a rebuttal on the coming sales point.

Jill Rutter

JILL RUTTER
Private Secretary

CE12

FROM: MISS C EVANS
DATE: 23 MARCH 1987

MR SCHOLAR
MR SEDGWICK
MR ODLING-SMEE
MR TURNBULL
MR PERETZ

cc Chancellor of the Exchequer
Chief Secretary
Financial Secretary
Economic Secretary
Minister of State
Sir Peter Middleton
Sir Terence Burns
Sir Geoffrey Littler
Mr F E R Butler
Mr Byatt
Mr Cassell
Mr Kemp
Mr Monck
Mrs Lomax Mr H. Evans
Mr Kelly
Mr Riley
Mr Mowl
Mr Pirie
Mr S Davies
Mr Culpin
Miss O'Mara
Mr G P Smith
PS/IR
Mr Beighton
PS/C&E
Mr Wilmott
Mr Cropper
Mr Ross Goobey
Mr Tyrie

C/ Michael Scholar will be submitting tomorrow draft answers and a list of officials to attend.

CR 24/3

Re X, I gave the 'official' gloss on this in my HST interview. The Prof Burns, officials can usual show how unattractive this 'study' is.

minute out AM

TCSC: QUESTIONS FOR OFFICIALS

... I attach the list of questions prepared by the Committee's advisers. The advisers are not suggesting any questions on local authority capital receipts or overfunding but it is of course possible that Committee members will raise these topics without briefing.

CE

MISS C EVANS
ext 5170 93/1

MONETARY POLICY AND THE EXCHANGE RATE

1. Persistence of MO as monetary indicator: why does MO continue to be used when everybody except the Treasury think it is invalid as an indicator? What is the relationship between MO and money GDP - since changes in MO tend to lag behind money GDP? MO is not a good surrogate for transactions: why has the Treasury not produced a new, better indicator?

2. What does the monetary section of the red book actually mean? Para 2.14 - what are the 'other indicators' and how would they have to behave to prevent an increase in interest rates?

3. What is the reason for the apparent unwillingness of the Treasury and Bank to sanction a cut in interest rates in recent weeks?

4. Has broad money been abandoned? Shouldn't it be more important given that private sector borrowing is rising, now 10 per cent of GDP, and forecast to increase?

5. Interview quoted in the FT on 19 March: Chancellor said he was happy with the exchange rate at present levels. If the exchange rate rises is there a presumption of an interest rate cut?

6. Paris meeting: if we are moving towards international agreements on exchange rates should the Government not come clean on its exchange rate range?

7. Would participation in the ERM provide a more coherent alternative to the MTFS approach?

FORECAST

8. The advisers are suspicious of the league tables for growth etc. If you used a different base year the picture would look less promising on growth and productivity. Tables purport to show strength of economy but last month the PM told the IOD that the British economy was not strong enough to join the ERM.

8a. What is the reason for the forecast increase in inflation - does it take account of the likely fall in the mortgage rate and non revalorisation of excise duties?

PSBR

9. What determined the decision to hold PSBR at 1 per cent instead of reducing further? What is the basis of the judgement that 1 per cent is the right level? What is the relationship of the PSBR with money GDP?

10. Chart 2.5: is the total (ie including privatisation proceeds) rather than the PSBR the focus of attention?

SPENDING/REVENUE FORECAST

11. Does the higher inflation forecast lead to a need for higher spending to maintain the real level of the Autumn Statement increases? How confident are you that spending plans will be achieved in face of higher than expected inflation?

TAX

12. What factors led to decision to cut income tax by 2p? What incentive effect do you expect in the light of Professor Brown's study?

13. Why are tax forecasts so inaccurate?

BALANCE OF PAYMENTS

14. The Treasury has been forecasting increased competitiveness as a result of sterling's depreciation - so why has the forecast deficit gone up?

Ask CSO!

38/3070G

Thanks. I have altered the answer - otherwise OK. Team OK. If any of them are in real difficulties, they can always suggest that question is put to me.

CONFIDENTIAL

FROM: DAVID PERETZ
24 March 1987

PRINCIPAL PRIVATE SECRETARY

Ch
Cast @ TCSC will be Scholar, Peretz, Odling-Smee, Sedgwick & Turnbull; Michael apologises for not clearing this with you formally.
After discussion with PEM, they felt these 2 questions were the hardest & the ones where guidance on the line was needed. OK?
AA

cc PS/Economic Secretary
Sir P Middleton
Sir T Burns
Sir G Littler
Mr Cassell
Mr Evans
Mr Scholar
Mr Sedgwick
Mr Odling Smee
Mr Turnbull
Mr Kelly
Mr Grice
Mr Culpin
Mr Ross Goobey

TCSC: QUESTIONS FOR OFFICIALS: MONETARY POLICY AND EXCHANGE RATE

Still with you, I think.

You will have seen the list of questions prepared by the Committee's advisers for the TCSC hearing tomorrow.

2. One of the potentially more difficult lines of questioning we expect is about the role of the exchange rate in policy: and the apparent tension between our expressed preference for keeping the rate at around its present level on the one hand; and the traditional policy of "taking account of exchange rate movements" as only one of a range of factors relevant in setting interest rates on the other.

3. I am assuming that our broad aim should be to seek to maintain the line that the exchange rate is only one of the range of factors taken into account in setting short term interest rates; but at the same time to avoid giving any impression that any significant movement in the rate from current levels is either expected, or something we would lightly accept in current circumstances.

4. I attach a general line that I have prepared myself, together

with answers to the two specific questions on the list given to us. I will of course also be able to refer to quite a wide range of recent on the record comments by the Chancellor.

5. I am also attaching my suggested reply to the question about our caution in sanctioning interest rate cuts.

6. I should be very grateful for any improvements or additional points that anyone has to offer.

DLCP

D L C PERETZ

37/3070G

Role of exchange rate in monetary policy: Paris accord v. "taking exchange rate into account"

Line to take

(i) Role of exchange rate in monetary policy is the same as it has been for several years: one of the most important factors the Government looks at, alongside monetary aggregates, in taking decisions on interest rates. As set out in Red Book para 2.09. At a time when some monetary indicators - the broad aggregates - are hard to interpret, that inevitably increases weight given to exchange rate.

(ii) Judgement - as Chancellor has said on several occasions - is that in present circumstances the current level of sterling is about right. (And right too that there should have been some fall last year when the oil price fell.)

Care needed not to rule out rates ½%? — can refer to "market interest rates"

(iii) Other important indicators - MO - also suggest that monetary conditions about right at present. ~~Obviously if any of the indicators moved substantially then that would be a reason to reconsider level of short term interest rates. But there is no mechanical rule: a judgement has to be made in the light of all the circumstances.~~ Clearly present level of short-term interest rates a matter of judgment. [See Q/A 3]

(iv) **How has the Paris accord changed things?** It means two things.

(i) The conditions for achieving a period of exchange rate stability are better than they have been for some years. Rates between the major currencies are now a better reflection of fundamentals than they have been: "within ranges broadly consistent with underlying economic fundamentals", in the words of the G6 communique.

(ii) The major countries have demonstrated their willingness to take action to maintain stability at current levels.

<u>If pressed</u>

Accept that this also means that in our own, UK, policy decisions we are giving greater weight to exchange rate stability, in current circumstances.

<u>How long will Paris accord last?</u>

Chancellor said (in on the record press briefing after Paris) "Nothing is eternal. But this will certainly continue for as long as we decide that it is appropriate to do so.".

38/3070G

<u>Q3</u> What is the reason for the apparent unwillingness of the Treasury and Bank to sanction a cut in interest rates in recent weeks?

<u>A3</u> There have been two cuts in base rates in the past 2 weeks. The way that the Government makes decisions on interest rates has been set out at length on several occasions (Lombard Association speech). The aim is to keep a level of interest rates, on average, that maintains monetary conditions tight enough to keep steady downward pressure on inflation. There are also, sometimes, tactical decisions to be made about how best to achieve that end in the face of market pressures. The present level of rates reflects the Government's present assessment of monetary conditions and market pressures. [<u>If asked</u>. Of course that assessment could change if circumstances change.] Government's stated intention is to operate policy cautiously, taking no risks with inflation.

<u>Q5</u> Interview quoted in the FT on 19 March: Chancellor said he was happy with the exchange rate at present levels. If the exchange rate rises is there a presumption of an interest rate cut?

<u>A5</u> MTFS means what it says. Exchange rate is certainly a factor taken into account in interest rate decisions. If the rate were to rise, and nothing else were to change, then - depending on the surrounding circumstances - monetary conditions might be judged to have tightened, and therefore to warrant a fall in interest rates.

<u>Q6</u> Paris meeting: if we are moving towards international agreements on exchange rates should the Government not come clean on its exchange rate range?

<u>A6</u> Almost anything said on this subject risks being misinterpreted. Chancellor has made it clear that outside

a formal exchange rate mechanism, such as the ERM, it does not make sense for a country to have an explicit exchange rate target. He has also made it clear that, in line with the G6 agreement, he is content with the current level of sterling, and hoping for a period of exchange rate stability.

RH12.18

UNCLASSIFIED

Nigel / AH
Do we now have transcript of officials' evidence? AH

prp

FROM: A P HUDSON
DATE: 26 March 1987

CHANCELLOR

Thanks - (I await transcript.)

YESTERDAY'S TCSC HEARING

David Peretz rang to report a couple of points on which he had been pressed at the TCSC yesterday, and which he thought might come up at Questions today.

2. First, the growth of credit, and what could be done about it. Was there nothing other than interest rates? Apparently the questioning was coming from Messrs Beaumont-Dark, Budgen, and Browne. David thought they were interested in the possibility of direct credit controls or borrowing controls. He replied that, without commenting on the desirability of controls, experience here and overseas suggested they were unlikely to be workable.

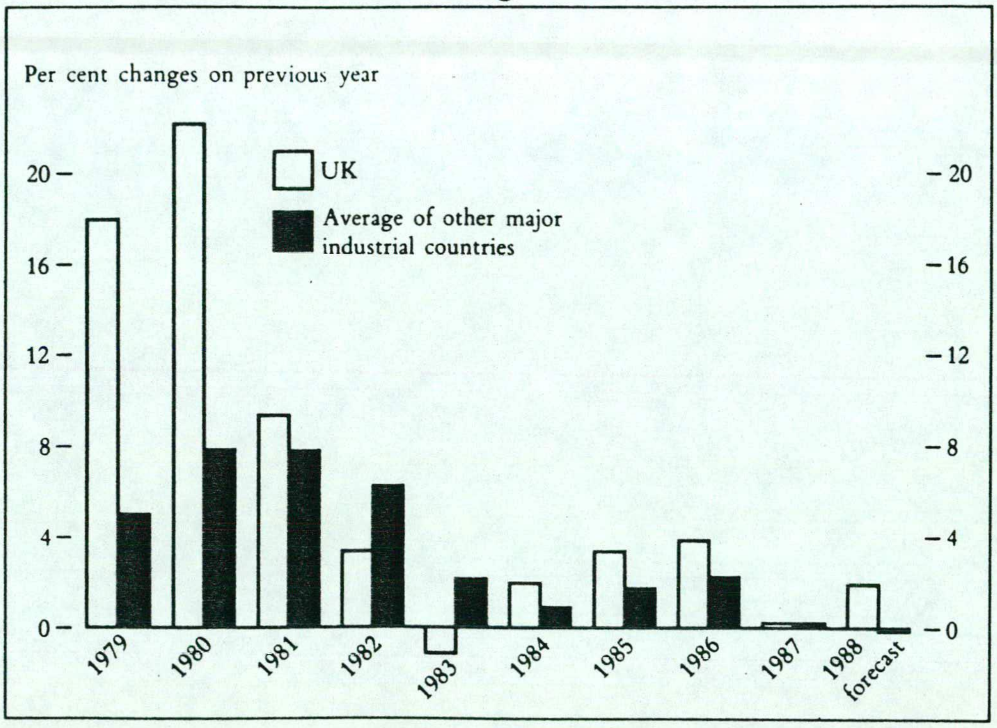
3. Second, one of the Labour members suggested that inflationary expectations were still one reason why real interest rates were so high, and how many years with a good track record would it take to reduce these expectations. David suggests you could deal with this one by talking about the (receding) fear of a Labour Government.

AH

A P HUDSON

underlying average earnings, boosted by record overtime working in manufacturing, rose by $7\frac{3}{4}$ per cent in 1987. But unit labour costs in manufacturing were broadly unchanged in 1987, reflecting a sharp increase in labour productivity.

Chart 3.11 Unit labour costs in manufacturing



Prospects

3.42 It is difficult to discern a reliable trend in recent private sector pay settlements. They have been markedly lower than the recent high growth in earnings, which reflects record overtime working and bonus payments. Recent data suggest that settlements may turn out a little higher in 1988 than in 1987, but overtime working (and overtime earnings) should fall as economic growth moves back closer to trend.

3.43 In 1987 rapid growth in productivity meant that manufacturing unit labour costs rose only fractionally, in line with other major industrial countries. Continued growth in underlying productivity should mean that manufacturing unit labour costs grow only slowly in 1988, though in other major industrialised countries no unit labour cost growth at all is forecast.

Table 3.7 Costs in manufacturing

Per cent changes on previous year

	Unit labour costs	Cost of materials and fuel[1]	Estimated total unit costs[2]	Output prices[1]
1986	4	−11	$-\frac{1}{2}$	$4\frac{1}{2}$
1987	0	5	$1\frac{1}{2}$	$4\frac{1}{2}$
1988 Forecast	2	$-1\frac{1}{2}$	1	$4\frac{1}{2}$

Mr H Evans
- more background to the TCSC's Japanese visit (just reached me)
CE 23/4

cc PPS Chancellor
Sir P Middleton
Sir T Burns
Sir G Littler
Mr Scholar
Mr Peretz
Mrs Lomax
Mr Mountfield
Mr Ilett

On Pretty appalling prospect
cc Chaney, Tokyo
- FED
- ERD
- Econ. Adviser
- Miss C Evans, HM Treasury 93/1 Parliament St

On the contrary! The longer they stay away & avoid discussion in Japan, the better - perhaps will be saved by election

COMMITTEE OFFICE
HOUSE OF COMMONS
LONDON SWIA OAA
01-219 3285 (Direct Line)
01-219 3000 (Switchboard)

TREASURY AND CIVIL SERVICE COMMITTEE

9 April 1987

Dear Mr Ito

I am writing in connection with a visit which the Treasury and Civil Service Committee hope to pay to Tokyo in mid-May. An approach has been made to the Japanese government through the British Embassy in Tokyo, asking whether it would be possible for the Committee to discuss certain economic matters with the Ministry of Finance, the Bank of Japan, and appropriate semi-public and private bodies. The Committee are however anxious to accumulate as much relevant information as they can before reaching Japan. I was therefore asked to approach you to inquire whether it would be possible for you to give Members of the Committee an informal briefing some time before their visit, which is in mid-May.

The general background to the visit is the Committee's interest in international monetary affairs, on which they have made a number of reports in previous parliamentary sessions. The latest of these reports, on International Credit and Capital Markets, is due to be published on 28 April. More particularly, the Committee have considered international economic cooperation, capital flows and the interaction between the domestic conditions of the American, Japanese, German and other economies and the global 'locomotive' role.

In the course of their visit to Japan, Members hope that it may be possible to learn more about the structure of the Japanese financial sector and about the Japanese perception of international economic trends. As regards the financial sector in Japan, Members might be interested in the generation of savings, the institutions which channel it into (among other things) portfolio investment overseas, and the factors which govern the setting of interest rates. Movement towards liberalisation would also be of concern to Members. The commercial banking sector's attitude to a number of current issues might be discussed, including international agreements on capital/asset ratios, on combating fraud, and on loans to developing countries (both in Latin America and among the poorer nations in Asia and Africa).

So far as concerns the second heading, Japanese perceptions of international economic trends, Members of the Committee would be concerned to know what is thought to be the likely course of events after the Louvre Accord and the Japanese/US agreement on dollar-yen relationships. Similarly, the probable course of Japanese investment in USA, as the dollar falls in value would be of interest, together with any likely change in the destination of this large flow of funds. This may lead Members to seek Japanese views on freedom of capital movement, and freedom of establishment and trade in financial services.

I have set out at length what I understand to be the full scope of the Committee's interest. I hope you may find this helpful. At the same time, however, it is of course understood that within the time available for a briefing (if you should be kind enough to agree) not all these topics may be covered. I am sure Members would be glad to leave to you the choice of topic.

I look forward to hearing from you. In the meantime, I enclose a note on the Committee and its past work.

W R MCKAY
Clerk to the Committee

Tetsuo Ito Esq
Counsellor (Economic)
Japanese Embassy
46 Grosvenor Street
LONDON
W1

CONFIDENTIAL

FROM: H G WALSH
DATE: 27 April 1987

CHANCELLOR

Thanks. I suspect that attention will focus less on int'l credit & cap markets so much as the fiscal situation and the global financial environment. I take Mr Culpin's remarks to be taken on this.

cc: Economic Secretary
Sir P Middleton
Sir G Littler
Mr Lavelle
Mrs Lomax
Mr Evans
Mr Mountfield
Mr Peretz
Mr Scholar
Mr Culpin
Miss Sinclair
Ms C Evans
Ms V Life

Mr Spence - IR

TCSC: INTERNATIONAL CREDIT AND CAPITAL MARKETS

The above TCSC report, which focuses on international debt, will be published at noon tomorrow, 28 April. It contains a number of recommendations (attached) which affect the Bank of England's supervision of the banks and financial markets, as well as recommendations on the future handling of the debt crisis.

Analysis

2. The report is not alarmist, and indeed it concedes that in some areas there are grounds for reasonable optimism. Write-offs and the Bradley Plan for middle income debtors are rejected as unjustified in equity and because they would give rise to pressure for universalisation. The report concludes nonetheless, rightly in the light of our own analysis, that major problems remain in the debt field and that fatigue may be setting in. The report draws a distinction between the problems of poor debtors and Mexico, Argentina and Brazil (MAB). This is consistent with your proposals for sub-Saharan Africa.

3. The report also points to the large gap between the book value of bank loan assets and their market value, and says that the need to maintain the artificially high value of bank assets has forced the banks into a position where it is not in their interests to refuse requests for further assistance to existing borrowers whereas otherwise they might do so.

Recommendations

4. The above analysis leads the Committee to conclude that there should be no more pressure on the banks to lend to MAB and similar countries, and that they should not be tempted to increase their net lending to these countries nor to reschedule their debts.

5. The Committee also conclude that further net transfers of resources to MAB countries should be the sole responsibility of the IMF, World Bank and Regional Development Banks (with conditionality) and that therefore the Government should view the proposals for the replenishment of the World Bank and IADB sympathetically.

The Commercial Banks

6. There are recommendations affecting UK banks as follows:-

(a) If the commercial banks do not increase their provisioning to the satisfaction of the Bank of England, then its powers should be enhanced to enable it to enable it to insist on adequate provisions against MAB debt in particular.

(b) Welcome for the agreement between the Bank of England and the US supervisory authorities on uniform minimum capital/asset ratios and recommends that the agreement should be extended to other countries at the earliest opportunity.

(c) The UK should raise with other governments and regulators the establishment of common tax standards (for provisioning) as soon as possible.

Our Reaction

7. If we are asked (via IDT or otherwise), the main recommendations in the report might be responded to as follows:

On Debt

The provision of new money and rescheduling to the LDCs by the banks is a matter for them to decide on the basis of their commercial judgment. The UK is ready to support a GCI for the World Bank when this is necessary and is taking an active part in discussions on replenishment of the IADB.

On the three points on bank regulation:

(a) The Bank of England already has powers to insist on adequate levels of provisioning under the Banking Act 1979. [Confidential: provisioning is in fact not adequate in some cases (as you and the Governor have said) and the Bank of England intend soon to ask the banks to do more. The Governor intends to approach you about this on his return from Africa].

(b) It is also our view that the US/UK agreement on minimum capital/asset ratios should be extended to the EEC and other G10 and we have asked for comments on the agreement from others with this objective in mind.

(c) The Government agrees that the amount of provisioning should as far as possible be independent of the applicable tax regime. We have no evidence that UK tax treatment significantly influences provisioning by UK lenders.

8. This brief has been discussed in draft with the Bank, FIM and Inland Revenue.

H.W.

H G WALSH

VII

CONCLUSIONS AND RECOMMENDATIONS

128. This report should of course be seen as part of our series on international monetary matters. We hope that as on previous occasions, the analysis in the main part of the report and the valuable evidence attached to it will help towards a solution of present problems. Here we set out some of our own conclusions and recommendations formed on the basis of the evidence and the preceding analysis.

129. Our initial report on "International Lending by Banks" described the origins of the international debt problem. We were not then concerned to apportion blame between the various participants in the difficult situation created by the first oil crisis. What happened in its aftermath was understandable. Our concern now is that, despite the efforts which have been made, massive problems remain.

130. In recent years, the debt problem has tended to dissolve into a number of separate problems involving individual countries. An optimistic tone underlay much of the evidence we received last summer and autumn. Now however the optimism is muted and the problems faced by some particular countries may again coalesce and present a danger to the system as a whole.

131. There is a danger that "debt fatigue" will affect all the participants—the commercial banks, the national regulators, debtor and creditor governments and the international agencies, notably the IMF and the World Bank.

132. Discussion of the issues has been confused by use of the term "the LDC debt problem". In fact, the economic difficulties of most of the third world are quite different from the debt problem of a small number of countries which have large debts but are not amongst the poorest in other terms. Primarily these are Mexico, Argentina, and Brazil (conveniently referred to as MAB) although there are a number of less important debtors in a similar position. These countries obtained a vast transfer of real resources as part of the petrodollar recycling after the first oil crisis. There is no reason why they should now receive preferential treatment, other than the fact that their debts are so large that default or specific recognition of their true value might endanger the banking system.

THE REAL PROBLEM NOW

133. The real problem now is this. There is a common interest between *first* the commercial banks, who are vulnerable to a default by any of the major debtors and who are reluctant to make realistic provisions against bad or doubtful debt, on the basis of what any willing purchaser would be prepared to pay for the debts on the open market (although further delay in doing this could require far more drastic action at a later stage, which would have a traumatic effect on their shareholders). *Secondly* MAB debtor governments that wish to reschedule in order to reduce or reverse any net outflow of funds. *Third* the national regulators who, as the problems have developed, have had difficulty in enforcing stringent standards and have been conscious of the need not to create a banking crisis. And *fourth*, the creditor country governments who have encouraged the rescheduling process in order to avoid the same danger.

134. We are not convinced that the vested interests of the various participants in the debt management problem taken together are producing a situation which can continue indefinitely

[1]Fourth Report 1982–83 (HC 21–I).

[2]As is clear from Table 8 (page xiv), the external liabilities of the Baker-15 countries amounted at the end of 1985 to US$439 billion. Of that sum, Mexico accounted for $99 billion, Argentina for $51 billion and Brazil for $107 billion—a MAB total of $257 billion or 58.5 per cent of the indebtedness of the entire Baker-15. Among the remaining twelve countries (ie excluding MAB) the average indebtedness was only $15 billion, ranging from Bolivia and Uruguay at $4 billion to Venezuela at $34 billion. By contrast, the total indebtedness of Asian and African borrowers together is roughly $75 billion. The treatment of the borrowers has also varied. Rescheduled debt service for African borrowers for example, over the three years 1982–85, has accounted for only 16.3 per cent of the debt: the figure for Latin America is 53.5 per cent (Appendix 12).

[3]It may be helpful to define the terms write-off, write-down, and provisioning. If a bank recognises that a claim on a borrowing customer will never be honoured, the bank *writes off* the claim; that is, the claim will no longer appear as a bank asset. If a bank recognises that such a claim will not be honoured beyond some particular proportion of its face value, the claim will be *written down* to that proportion of face value. If, in the third case, a bank's claim on a borrower is merely "doubtful", because there is uncertainty over whether or to what extent it will eventually be honoured, the claim remains on the bank's books, but is offset by showing a *provision* (sometimes called a loan loss reserve) in the published accounts. Provisions may be *specific*, that is, related to the debt of an individual borrower, or *general*, when the relationship is with the aggregate debt of a range of borrowers. The Bank of England's definition of "capital" includes general provisions, but excludes specific provisions. We understand that similar conventions are observed in other countries.

or which is in the public interest. On the contrary the perpetuation of unrealistic book values has biassed decisions in favour of those who have been fortunate enough to establish a position in which it is not in the banks' interest to refuse requests for further assistance and against those of other potential international and domestic borrowers.

135. The present situation cannot be put right overnight. An attempt to do so could well result in a major debtor defaulting. Nonetheless it is high time that creditor banks in the US but also in the UK faced up to the need for adequate provisioning and the need to make their policy explicit.

136. Our recommendations fall into three groups—those which concern the commercial banks; those which would enhance the role of the public sector international financial institutions; and actions necessary in the global economic environment.

THE COMMERCIAL BANKS

137. Although Secretary Baker's proposals were hedged by references to the need for debtors to continue to implement sound policies leading to long term growth, and for the banks to apply their commercial judgment to new lending (paras 83–84) **we cannot follow him in envisaging continuing pressure on commercial banks to lend more to MAB countries. In our view the banks should not be tempted to increase their net lending to those countries and others in similar straits, in part to justify the book value of existing loans.** The banks' strategy ought to be to reduce and not increase their exposures in this direction. Only where a bank judges a borrower's difficulties are likely to be temporary, and that time will improve the prospects for repayment, would we think it sensible for new advances to be made. We are concerned about a situation in which MAB debtors receive preferential terms which are significantly easier than those on offer to other international borrowers or to customers at home. The special terms given to LDCs may increase charges on banks' home-based customers and clients, thus adding to their financial burdens.

138. **Rescheduling of existing loans ought to be considered in the same light.** If a bank considers that its interests and those of its depositors and shareholders are best served by an extension of the term of the debt in the expectation of eventual repayment, we see no objection to its doing so. But this must be a commercial judgment, and there should be no "persuasion" by governments or central banks.

139. Moreover we are mindful of the evidence we received that "banks are not charitable institutions, and most LDCs are now a bad risk."[1] The perils of self deception were graphically sketched by a "senior US Treasury official" recently, who said:

> "The [Latin American] debt is not worth 100 cents in the dollar and we should not be engaging in the fiction that it is, either."[2]

As we pointed out in para 42, the provisioning policy adopted by banks against their claims on LDCs differs considerably from country to country. Some of the US money centre banks have exceptionally low levels of provisioning: the big British banks have somewhat higher levels but are appreciably less adequately provisioned than their counterparts in Continental Europe. In our view the provisions currently made by some US and UK banks against bad and doubtful MAB debt are insufficient to allow them to take entirely sound commercial decisions on extending credit. Even rescheduling (which we were prepared to accept if it could be commercially justified) occurs in practice only in response to the threat of default which may differ only cosmetically from open recognition that a debt is substandard and should be provisioned accordingly.

140. It may be argued that such an attitude pays too little regard to wider political considerations. Our view is that if a government specifically wishes to support a particular debtor, they should do so at their own hand, rather than by leaning on the banks.

141. In the present state of banks' balance sheets, Senator Bradley's proposal involving an across-the-board writing down of the principal and limiting interest charges is impracticable (paras 123–127). This judgment is reinforced by testimony which Secretary Baker gave recently before a US Senate Committee. He is reported as having declared that it was "politically tempting" to search for overnight solutions to the debt problem, but write-offs would further weaken US financial institutions and make external capital available to debtors only at prohibitive prices.[3]

[1] Appendix 5, (Mr Monro-Davies).
[2] *Financial Times*, 9 January 1987, quoting the *Washington Post*, 7 January 1987.
[3] *Financial Times*, 9 January 1987.

142. There are other objections to an acceptance of voluntary across the board write-offs for MAB debtors. It cannot be defended on equitable grounds. If gifts are to be made, there may be poorer or more deserving recipients than middle-income LDCs which have already benefited from substantial capital inflows. Moreover, once a policy of write-off is in any way legitimised as the appropriate response in a particular case, other debtors are sure to demand equality of treatment. Why should they not? They all understandably gave high priority to lightening the burdens placed on their taxpayers and their economies, and so demands for debt cancellation may come to be made by those who have a reasonable chance of pulling through without such cancellation, as well as by the more critical cases.

143. Figures for provisioning by UK banks at present are given in para 42 and Table 5 (page xi). We have already indicated that further progress needs to be made to increase these to more realistic levels. With the recent decision of Brazil to suspend interest payments (and similar action taken or threatened by other debtors) the question of adequate provisioning has assumed an even greater significance. **If the commercial banks do not respond by increasing their provisioning to the satisfaction of the Bank of England (para 44) then its powers should be enhanced to enable it to *insist* on adequate provisions against MAB debt in particular.**

144. On the other side of the equation, the banks have made considerable progress in building up their capital. In the UK, between end–1982 and end–1985, the big four clearing banks raised the equivalent of £8.6 billion capital in the form of perpetual subordinated debt, term subordinated debt (new issues net of repayments, retained earnings and rights issues. In the first six months of 1986, a further £1.1 billion was raised. As a result, the capital ratios of all the major UK banks have shown a marked improvement over the period (para 38).

145. As far as bank regulators elsewhere are concerned, a change of attitude may be more appropriate than the assumption of specific new powers. We recognise that over the past few years the commercial banks have taken a number of steps to ameliorate the adverse effects of their substantial exposures—greater selectivity in new lending, reduction in exposure to LDCs as a percentage of capital, more refined risk assessment, and improvements in the collection and dissemination of information on which banks make decisions about the economies and governments to which they will lend (paras 37–39). Capital asset ratios have shown an improvement for banks in most countries (para 38).

146. In this connection, **we very much welcome the agreement between the Bank of England and the US supervisory authorities on uniform minimum capital : asset ratios (para 50).** We hope that the agreement may be extended to other countries at the earliest opportunity, either bilaterally or through the EEC. There should be no question of any "competition in laxity" between financial centres. We also hope that US regulators will be encouraged to return to the strictness of their earlier supervisory attitudes, for example on non-performing loans.

147. The adequacy of provisioning should not be materially influenced by whether a particular accounting solution will or will not attract a fiscal benefit or penalty. However, we believe that the creation of adequate provisioning should be supported by the tax authorities permitting general or country provisions (as well as specific provisions) which should be tax-deductible. This is plainly not an issue capable of satisfactory solution by individual countries and in order to prevent the burden falling unfairly on particular tax authorities, **the UK should raise with other governments and regulators the establishment of common tax standards as soon as possible.**

148. International cooperation also needs to be fostered in a number of other spheres. In our 1982–83 report we stressed the importance of improving information available to decision makers in international capital markets, and at para 55 we recorded our appreciation of what has been done, including the foundation of the Institute for International Finance. We commend the work of the Institute and of the independent credit-rating agencies. The free availability of information is an essential prerequisite for the efficient functioning of markets. The international capital market is no exception.

THE MAB DEBTORS

149. In recommending the effective withdrawal of the commercial banks from new net lending to MAB debtors, and in calling for a more stringent approach by the banks and their regulators to balance sheet considerations, we do not wish to imply that capital flows to MAB or other LDC debtors should be cut off, but **any further net transfer of resources to MAB countries should be the responsibility where appropriate of the IMF and otherwise of the World Bank and the other development banks.**

150. We do not anticipate that these bodies will refinance outstanding LDC indebtedness to the commercial banks nor will they (save under strict IMF conditionality) finance balance of payments deficits but they do have advantages over the commercial banks in assessing the relative needs of MAB applicants as against those of others, and they are (in different ways) in a position to enforce conditionality on their advances. The respective roles of the IMF and the two relevant development banks, the World Bank and the Inter American Development Bank need to be distinguished.

151. The IMF has recently been the provider of short-term credits, policy advice and monitoring, and has been the forum within which rescheduling agreements have been established. We noted at para 105 the desire of the commercial banks that the Fund should continue to play a central role as, among other things, a guardian of orthodoxy. And of course the IMF played a significant part in the Mexican agreement of 1986 (para 114). We do not envisage the Fund's contribution in future as being of the kind undertaken in the Mexican settlement which (in our view) represented a partial relaxation of the conditionality to which we attach importance. We do, however, see the IMF as the provider of short term liquidity for MAB countries, on terms of strict conditionality.

152. Any additional longer term finance should be provided by the development banks, especially the World Bank and the Inter American Development Bank. Both have experience based on many years of promoting long term development in LDCs. We think they should be encouraged to continue and indeed extend their activities.

153. Conditionality should have a major part to play in MAB advances. Before significant advances are made, an overall assessment should be made of the degree to which national macro-economic policies command confidence. The development banks are well placed to make such a judgment, while at a more detailed level they are more able than other possible lenders to insist on conditionality and the need for a proper audit of the use made of funds. Certain developments in the character of their loans have reinforced the advantages they enjoy. In our report of 1983,[1] we commended the development of structural loans. Since then these have been supplemented by sectoral loans. The proportion of World Bank lending they represent is likely to increase, and gross World Bank disbursements may be substantially increased (see para 93).

154. We consider that measures should be taken by the development banks—in conjunction with MAB governments, where appropriate—to link advances with actions which the governments can take themselves. Competitiveness in MAB internal economies needs encouragement. For example, they may have to permit more foreign involvement in some sectors, to assist (*inter alia*) in internationalising their product lines.

155. There is one specific area of possible action on which MAB countries and the indebted LDCs should (in our opinion) be pressed very hard. They must do everything possible to prevent the flight of capital which has in the past seriously depleted the foreign exchange made available by external borrowing, thus in part vitiating its effect (see para 90 and Table 22 page xxiii). Even with the warning that all estimates of capital flight are subject to a wide margin of error, and that allowances must be made for genuine cross-border outward investment, the figures for capital flight from Latin America in Table 22 illustrate the seriousness of the problem. The money lent must be used for the specific purposes for which it was intended. Conditionality of the kind enforced by the development banks and the IMF will of course do much to help, but it must be reinforced by the positive cooperation of LDC governments. We do not see why, when some LDCs (not generally in Latin America) have consistently borrowed within their capacities to repay, and have met their obligations often at considerable sacrifice, others should be permitted to misappropriate or misuse advances.

156. If the World Bank and the IADB are able to extend their lending, subject to appropriate precautions, both will need further subscriptions from the developed countries, including the UK. Secretary Baker has declared that his country is prepared to consider a general capital increase for the World Bank "if all the participants in the strategy do their part, and there is a demonstrated increase in the demand for quality lending" above recent levels. **We believe that HM Government should also view the prospect of replenishment of the World Bank and the Inter American Development Bank sympathetically.**

[1] Fourth Report (1982–83) HC 21–I, para 5.17.

Securitisation

157. The term "securitisation" has acquired a large number of meanings.[1] In the narrow sense the term refers to the pooling of loans bringing in regular payments and interest into units that can be sold off as income bearing bonds or as self liquidating assets in which shares can be sold. At a general level the term is often used to describe the conversion of any asset into paper that can be bought and sold in a secondary market. Accordingly, given the complexity of the phenomenon known as "securitisation" we have not been able to make a comprehensive series of recommendations, but in three areas we feel able to put forward specific suggestions.

158. The first concerns the possible consequences of the growth of the securitisation process on the commercial banks. With high quality borrowers increasingly turning to direct credit markets to meet their credit needs, the average quality of bank assets may gradually decline in comparison. If this does happen, banks should increase their provisioning, thus reinforcing the recommendation we made in para 143.

159. Table 11 page xvii shows how far the secondary market price of developing countries' outstanding bank loans has drifted from the face value. At the moment, this seems the only way of making some "independent" assessment of the real worth of MAB indebtedness. The development of securitisation, however, should help in placing a true value on packages of international debt, and to that extent we welcome developments so far.

160. On the other hand securitisation has its dangers in that there is in the security markets no "investor of last resort" with a role similar to that of a central bank acting as "lender of last resort" to the banking system (para 81).

161. Debt-equity swaps (para 56–58) should be encouraged so far as possible, both as a means of establishing more realistic values and of encouraging investment in debtor countries.

162. We were concerned about the international supervision and regulation of the security markets. There has been a considerable expansion in both the variety and volume of financial instruments traded in the markets. Innovation in financial markets has taken place alongside the development of the world debt crisis in the early 1980s: since then its pace has accelerated (paras 61–62). In addition, with the advent of new information and communications technologies, and widespread deregulation, capital markets have become much more internationalised. We are moving towards a single global capital market, and supervision too will have to become international. **We therefore welcome the Department of Trade and Industry's efforts to encourage the sharing of information related to the supervision of securities markets (para 80) and we hope that the government will continue with its efforts to place the supervision of capital markets on an international basis.** We also welcome the progress achieved in this area by the BIS and particular commend the Cross Report (para 82).

Global economic environment

163. There are two important areas in which LDC debtors, and perhaps particularly MAB countries, can be helped by improvement in the global economy—the commitment to growth and free trade, and the "locomotive" role of the developed countries until recently provided by the USA. We regard the first of Secretary Baker's initiatives, which was aimed at coordinated activity by the G5 countries (see para 18) as of greater significance than the second, which was targeted specifically at LDC problems.

164. The creditor countries should do all they can to encourage free trade, particularly in agriculture. At present, the excessive protection practised by the developed countries discriminates in a wholly unjustifiable way against imports from the developing countries. In addition to tariff barriers, LDC exports are severely affected by quantity restrictions and non-tariff barriers, which affect more than one third of LDCs' exports to industrial countries.[2]

165. We have commented in our earlier reports on international monetary affairs on the connection between the US fiscal deficit and the locomotive role of the American economy. The United States has played a key role in the expansion of the world economy over the last five years or so. The current administration's expansionary fiscal policies have led to substantial growth at home, and have also had a stimulating effect on the economies of both the LDCs and the other industrialised countries. The expanding US market has favoured the export earnings

[1] See para 60.

[2] According to L. Alan Winters, of the University College of North Wales, reported in the Bulletin of the Centre for Economic Policy Research, April 1986.

of indebted LDCs, and thereby lightened the burden of their debt service. For the industrialised nations, access to the US market has limited the effects of restrictive fiscal and monetary policies in other developed countries, and has helped their economies to sustain growth.[1]

166. The US expansionary stance has not, however, been without cost. Since 1982, both the fiscal deficit and the deficit on current account have risen to unprecedented levels. We continue to adhere to our previous view that these levels cannot and will not be sustained indefinitely. In fact, it is only by virtue of unexpected favourable circumstances that the levels of these two US deficits have been sustainable up to March 1987. These favourable circumstances have been above all else the continuing appetite of Japanese investors for US dollar securities. Japanese investors (in practice mainly pension funds and similar institutions) have remained loyal to dollar investment, despite the reduction in dollar interest rates and the depreciation of the US dollar. The aggregate effect of their loyalty has undoubtedly been to their collective benefit, since without the massive capital flow from Japan to the United States, the dollar's depreciation would have been greatly aggravated, and a "hard landing" (which seemed a real possibility at the time of our last report) might well have been precipitated. The massive support afforded to the US dollar by Japanese investors is likely to tail off eventually, however, once the desired proportion of dollar holdings in their portfolios have been achieved. It is therefore essential that the US authorities should take further steps to reduce the US fiscal and current account deficits, reinforcing (in the case of the former) the intentions of Gramm-Rudman legislation.

167. We very much hope the US Government will not resort to increased protectionism (para 109). Another possibility would be to permit further and still more drastic depreciation of the US dollar. This, it seems—rightly in our view—the US authorities wish to avoid. Indeed, in preference to a "hard" landing of the dollar, the Federal Reserve Board would be likely to raise interest rates, with a view to attracting funds from abroad. This would exacerbate the problems of all the LDCs (not to mention the industrialised countries).

168. If such a chain of events is to be broken, other countries will have to assume the "locomotive" role hitherto played by the United States, thus expanding the export market for US goods and services, so reducing the American external deficit.

169. The two countries best placed to take on this responsibility are the Federal Republic of Germany and Japan. Both enjoy very large surpluses on current account: they have low rates of inflation: and they are both well placed to initiate the fiscal stimulus necessary to sustain international growth without subjecting their economies to intolerable strain. Moreover, both countries adopted relatively tight fiscal policies during the earlier years of the present decade, and both have relatively modest national debts, as Annexes 1 and 2 show.

170. Neither the Federal Republic nor Japan, however, has shown the willingness necessary to put their domestic policy aims within a wider international framework. At the recent G6 meeting, the Japanese government announced that it would "follow monetary policies which will help to expand domestic demand, and thereby contribute to reducing the external surplus."[2] The policy measures announced by the Federal German government, which seem to us to amount to little more than a cosmetic stimulus, are equally disappointing.

171. Unless countries which have enjoyed the fruits of American expansion are prepared to play their part in sustaining growth in the world economy, the prospect is bleak for LDCs—as indeed for the industrialised countries such as the UK, which are equally vulnerable to a decline in world prosperity. **The furtherance of purely national economic interests has lost much force in today's global economy. In previous reports,[3] we have stressed the need for international co-operation in sustaining world economic growth. The lack of a specific commitment by the participants in the recent G6 meeting only demonstrates the extent to which more vigorous efforts to make progress are needed.**

16 *March* 1987

[1]HC (1984–85) 405, paras 38–44.
[2]Paris Communique para 7.
[3]eg Twelfth Report, 1984–85, HC 405, para 76.

INLAND REVENUE
STATISTICS DIVISION
SOMERSET HOUSE

Not a v. informative note; but since the TCSC no longer exists, will serve for the time being. M

FROM: J R CALDER
DATE: 15 MAY 1987

CHANCELLOR

TCSC: DATA ON INSURANCE COMPANIES

At the end of the session of oral evidence to the TCSC on 27 April, the Chairman asked Inland Revenue witnesses some questions about the data in respect of life offices available to the Revenue at the time when Budget estimates are prepared (Nos 65-7 attached). The questions were off the subject of MIRAS and LAPRAS on which we had been called to give evidence. We assume, although Mr Higgins gave no indication of this and refers only to "profits", that the questions were aimed at the amount of information available at Budget time to estimate the effect on life assurance companies of changing the CT regime for gains. Although our offer is not recorded in the draft transcript, we agreed to provide a note and the Clerk has confirmed that a note is expected. A draft is attached.

As requested, the draft relates to the data available at the time when 1987 Budget costings were being done, when we had 1985 data in respect of only a half-dozen life assurance

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cc	PS/Chief Secretary	Mr Painter
	PS/Financial Secretary	Mr Isaac
	Mr C D Butler	Mr Crawley
	Mr Scholar	Mr McGivern
	Mr D N Walters	Mr Houghton
		Mr Cayley
		Mr Spence
		Mr Fitzpatrick
		Mr Greenslade
		Mr Calder
		PS/IR

companies. We have since obtained, as a special exercise, 1985 data for 60 or so companies and this extra information confirms the earlier costings produced in respect of the capital gains proposal in the Budget. We hope to have 1986 data for these same 60 companies for use in any costings for the 1988 Budget.

Are you content for the draft note to be sent to the Committee?

[signature]

pw J R CALDER

TCSC draft transcripts : 27 April 1987.

finance division at Worthing have a group of some 16 or so staff whose prime task is to go round visiting the lending organisations of the life assurance companies, looking at their systems, checking their accounting methods, and satisfying themselves that the institutions who make the repayments do have acceptable systems and are dealing with their reimbursement claims in a proper manner, following up any unsatisfactory features and drawing those more widely to members' attention.

64. Do you have any problems with these institutions in keeping accurate records and dealing with them appropriately?

(Mr Crawley) In general I think the work that we have done on compliance checking with the lenders has produced reasonably satisfactory results. Some of the details of this were given to the Public Accounts Committee last summer. For example, 214 visits were made in 1984-85 to MIRAS lenders. We found unsatisfactory features in some 28 cases, of which 19 have now been cleared either by reinspection or through correspondence, and the rest either have already been reinspected or are down for a very early reinspection. So we certainly found individual cases where there were problems that we had to ask explanations for and satisfy ourselves either that things are in fact all right or that proper steps are taken by the institutions to put their systems right, but these are in relation to total visits a fairly small minority.

Chairman

65. Thank you. I wonder if I might ask one final question. In making estimates of revenue from say life offices, how up-to-date would be the figures which you would have before Budget Day, say? I may not have put my question clearly. Supposing the Chancellor is contemplating a change in taxation which would affect life offices

and asked you to estimate what effect the change in taxation would have on revenue, would you have up-to-date data available from the life offices on that?

(Mr Calder) I would think that would depend on the nature of the change that was being envisaged.

66. But in terms of profits, how long a lag is there between the profits being made and you getting information?

(Mr Crawley) I am afraid I do not have the answer to that. There obviously is always a certain degree of lag before any company can put in its accounts and have them examined by the Revenue, but what the typical period in the case of life assurance companies is is something I cannot give an answer to.

67. Perhaps if you have such information you might let us know. ~~I said at the beginning it was something of an experiment.~~ Inevitably it is going to be something of a shotgun exercise in the way we put questions to you. You give us back written answers and then we pick out odd bits and pieces, and that is bound to seem fragmentary and not necessarily to be very coherent, because in essence one is filling in the gaps in the information which you have already provided us with or alternatively parts which we have not fully understood, but at all events, it is helpful to have had your advice on this occasion. Thank you very much indeed, and particularly Mr Butler for acting as continuity man.

(Mr Butler) Thank you very much, Mr Chairman.

DRAFT NOTE TO TCSC

During the session of oral evidence on 27 April, in questions 65 to 67, the Chairman asked the Inland Revenue witnesses to provide information on the data available in respect of life assurance companies at the time when the Budget estimates are prepared.

The data for Budget estimates are similar in the main to those used as the basis of the tax forecasts, described in paragraph 3 of our earlier note to the Select Committee (Forecasting and Monitoring of Corporation Tax Receipts). That note related to the whole corporate sector but the position is not markedly different for the life assurance sector. Thus at the time of the 1987 Budget a limited amount of information relating to 1985 was available, with more data available for earlier years.

3767/004

APPOINTMENTS-IN-CONFIDENCE

prayos

FROM: P D P BARNES
DATE: 14 October 1987

PS/CHANCELLOR

cc PS/Chief Secretary
PS/Financial Secretary
PS/Paymaster General
Mr Cropper
Mr Tyrie
Mr Call

TCSC

The Economic Secretary thinks that the Chancellor may wish to consider some of the following for the TCSC:

> Jim Boswell; ~~Simon Burns~~; Douglas French; Tim Janman; Andrew Mitchell; John Redwood; Ian Taylor.

2. Some of these the Economic Secretary knows only by repute, so that their inclusion in the above list does not constitute a recommendation. He thinks, however, that it may be worth finding out more about them.

PB

P D P BARNES
Private Secretary

APPOINTMENTS-IN-CONFIDENCE

3974/47

Prayes.

APPOINTMENTS - IN - CONFIDENCE

FROM: P J CROPPER
DATE: 15 October 1987

PS/CHANCELLOR

Who off? (apart from B-Drake)

cc PS/Chief Secretary
PS/Financial Secretary
PS/Paymaster General
PS/Economic Secretary
Mr Tyrie
Mr Call

TCSC MEMBERSHIP

I note the EST's list of suggestions, and that he, also, includes Tim Boswell.

2. I would strongly support Douglas French. He worked as research assistant in the House for Geoffrey Howe in the seventies, and took over from me as special adviser here when I went back to CRD in 1982. He is very sound: lawyer, not economist by training: political complexion broadly Bow Group (whatever that means!).

3. Andrew Mitchell is potentially a very high flyer: Lazards since 1979: financial adviser to El Vino.

4. If one wants an abrasive right winger on the TCSC to needle the left, what about Michael Fallon?

5. Redwood needs no introduction.

P J CROPPER