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Foreign and Commonwealth Office

London SW1A 2AH

From The Minister of State

11 June 1980

Dear Ian

Last week, after I brought the Argentine Minister of Economy to see the Prime Minister, she asked if I would prepare a short note setting out the salient features of what has been achieved in Argentina and the policy they have pursued. I enclose this note compressed to be as short as possible.

Still on the subject of the Argentine, Peter Carrington will be putting a paper to OD Committee quite soon on the subject of our dispute over the Falkland Islands. I know the Prime Minister is very concerned about this whole subject. If she would like to have a talk with me at any time to discuss this in advance of the meeting I would welcome it. I am away next week in Canada but will be here from the morning of the 20th on.

A handwritten signature in blue ink, appearing to read 'Nicholas Ridley'.

A second handwritten signature in blue ink, appearing to read 'Nicholas Ridley'.

Nicholas Ridley

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NOTE OF SOME OF THE MORE INTERESTING POINTS MADE BY SR MARTINEZ DE HOZ, ARGENTINE MINISTER OF ECONOMY, IN CONVERSATION WITH THE PRIME MINISTER, ON THE RESCUE OF THE ARGENTINE ECONOMY IN THE 4 YEAR PERIOD MARCH 1976 - PRESENT DAY

1. Main Features of Policy

Money supply: Kept under tight control.

Prices, wages, rents, interest rate: No longer controlled

Monopolies: Exposed to competition wherever possible,
denationalized wherever possible.

Tariffs: Of all sorts greatly reduced or abolished.

Subsidies: To all enterprises reduced to very small levels.

Currency exchange rate: Still controlled.

2. Main Results

Savings: Increasing

Flight from money reversed.

Unemployment: Down to 2%.

Economic growth: After a fall, growth resumed (1978/79 + 8.5%)

Inflation rate: Brought down from 900% to 47%

Now great political acceptability

3. Points of Interest to UK Recovery Programme

(A) Time Scale: Time scale was different for each different element of economic performance to show results. The first year was quite easy, years two and three the most difficult, year four the first when really impressive results became apparent. The slowest element to come right was industrial production, because of the time it takes to re-equip and modernize plant and human attitudes. It is vital not to change course or let up.

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(B) To encourage savings and reinvestment the interest rate had to be positive; ie the rate of inflation plus a percentage for reward of capital. It is currently in Argentina 52% (ie 47% inflation + 5% reward). For the UK this means 27% (ie 22% inflation + 5% reward).)

(C) It was necessary from time to time to let the Money Supply rise above target, in order to make the necessary funds available for the physical modernization of industry. Meanwhile the economy had been controlled by keeping the exchange rate high - this disciplined prices, and forced industrial modernization, by making imports cheap.

(D) It was vital to improve the performance of the State sector. This had been done by:

Allowing competition wherever possible, both internal and external.

Denationalizing all enterprises other than utilities for which buyers could be found, even at knock-down prices.

Putting new management into loss making public services, and forcing them to reduce their losses by systems close to our cash limit and EFL controls

(E) The pressure on industry, both public and private, had to be harsh and real, and closures and bankruptcies allowed to proceed, otherwise industry would not modernize and improve. This resulted in an early fall in growth rates, but later sound growth forged ahead.

(F) It was necessary to de-control rents as well as prices and incomes.

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4. Differences between UK and Argentine situation

(A) They started from an infinitely worse position than we did, although our trend like theirs was in the wrong direction.

(B) They had infinite difficulty in changing the expectations of people that inflation was going to continue. Our people's expectations are far more flexible, if not favourable.

(C) We are a democracy, and they are not.

9 June 1980

Nicholas Ridley