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STATEMENT BY THE HON. SIR GEOFFREY HOWE, CHANCELLOR OF THE EXCHEQUER AND GOVERNOR OF THE FUND FOR THE UNITED KINGDOM, AT THE JOINT ANNUAL DISCUSSIONS.

I JOIN MY FELLOW GOVERNORS IN THANKING THE FEDERAL GOVERNMENT AND PEOPLE OF YUGOSLAVIA FOR THEIR INVITATION TO HOLD OUR ANNUAL MEETINGS IN THEIR COUNTRY --- AND IN EXPRESSING MY GRATEFUL AND GENUINE ADMIRATION FOR THE ARRANGEMENTS THEY HAVE MADE. I JOIN TOO IN OFFERING GREETINGS TO THE NEW MEMBERS OF OUR INSTITUTIONS.

IT IS THE PURPOSE OF OUR PRESENCE AND ENDEAVORS HERE TO PROMOTE THE WELFARE OF OUR PEOPLES. AS A NEW CHANCELLOR OF THE EXCHEQUER OF A RECENTLY ELECTED GOVERNMENT, ADDRESSING MY FIRST IBRD/IMF MEETING, I HOPE I MAY BEGIN WITH A WORD OR TWO ABOUT MY CAUTIOUSLY RESTRAINED APPROACH TO THAT AMBITION. VERY BRIEFLY IT IS THIS. WHETHER I AM SEEKING PRINCIPLES TO GUIDE OUR INTERNATIONAL RELATIONS OR LOOKING FOR WAYS OF IMPROVING MY OWN COUNTRY'S ECONOMIC PERFORMANCE, I AM PREDISPOSED TO FAVOR WHAT HAS BEEN CALLED THE LIBERTARIAN APPROACH. BY THIS I MEAN THE PHILOSOPHY WHICH ALLOWS THE MAXIMUM FREEDOM TO DEVELOP ECONOMIC POTENTIAL, WITHIN THE NECESSARY FRAMEWORK OF ORDER. THIS CONCEPT OF FREEDOM WITHIN THE LAW CAN, I BELIEVE, PROVIDE AS SOUND A FOUNDATION FOR ECONOMIC POLICY AS IT DOES FOR HUMAN AND SOCIAL RELATIONS. IT IS THE BASIS OF POLICY BY WHICH OUR NEW GOVERNMENT INTENDS TO SET THE BRITISH ECONOMY ON TO A BETTER PATH.

/THE NECESSARY

THE NECESSARY FRAMEWORK OF ORDER HAS TO INCLUDE, AS ALMOST ITS HIGHEST PRIORITY, THE PROVISION OF A CURRENCY THAT IS A RELIABLE STORE OF VALUE. A SOUND AND STABLE MEDIUM OF EXCHANGE IS A PREREQUISITE OF ECONOMIC ORDER. FOR THIS REASON, I WELCOME MOST WARMLY THE PLAIN STATEMENT BY THE FUND'S MANAGING DIRECTOR THAT "THE MOST TROUBLESOME ASPECT OF THE ECONOMIC SITUATION IN THE GREAT MAJORITY OF MEMBER COUNTRIES IS THE PERSISTENCE OR WORSENING OF INFLATION". IF WE ARE TO HAVE ANY FIRM PROSPECT OF RESUMING STEADY, SUSTAINABLE GROWTH THIS FUNDAMENTAL PROBLEM NEEDS TO BE TACKLED WITH THE FIRMEST POSSIBLE RESOLVE. HIGH INFLATIONARY EXPECTATIONS ARE NOW DANGEROUSLY ENTRENCHED. WE NEED BOTH TO REDUCE INFLATION SIGNIFICANTLY FROM CURRENT LEVELS, AND TO CONVINCING PEOPLE THAT SUCH A REDUCTION WILL BE SUSTAINED. IN THE WORDS OF THE GATT REPORT FOR 1978/79, "ANY POLICY WHICH DOES NOT HAVE PRICE STABILITY AS ITS PRIMARY OBJECTIVE IS FRAUGHT WITH FEARFUL RISKS".

DURING THE POST-WAR YEARS, IN BRITAIN AS IN MANY OTHER COUNTRIES, MUCH EMPHASIS HAS BEEN PLACED ON "DEMAND MANAGEMENT" AS MAKING THE MAJOR CONTRIBUTION TO STEADY, SUSTAINED GROWTH. WHATEVER SUCCESS MAY HAVE BEEN ATTRIBUTED TO DEMAND MANAGEMENT IN TIMES OF LOW OR MODERATE INFLATION, IT HAS BEEN SEEN TO BE A LESS AND LESS APPROPRIATE RESPONSE IN SITUATIONS OF LOW GROWTH BUT HIGH INFLATION. IN THE CONDITIONS OF EARLIER PERIODS, THERE MAY OR MAY NOT HAVE BEEN A CASE FOR EMPHASIS ON DEMAND POLICIES. THE NEED TODAY IS THAT WE SHOULD ALL CONCENTRATE MUCH MORE ON THE FIGHT AGAINST INFLATION AND ON IMPROVING THE PERFORMANCE OF THE SUPPLY SIDE OF OUR ECONOMY. I SUSPECT THAT IF KEYNES HIMSELF WERE STILL ALIVE, HE WOULD LONG SINCE HAVE REACHED THAT VIEW.

IN RETROSPECT WE CAN SEE THAT THE 70S WERE THE YEARS IN WHICH INFLATION REALLY ESTABLISHED ITS MALIGN GRIP UPON OUR SYSTEM. WE ALL KNOW THAT INFLATION WAS MOVING SHARPLY UPWARDS EVEN BEFORE THE 1973/74 OIL PRICE INCREASES. IT WAS MOVING UPWARDS AGAIN BEFORE THE OIL PRICE INCREASE THIS YEAR. FOR A TIME, IT LOOKED AS THOUGH SOME OF THE MOST SEVERE APPREHENSIONS ABOUT DEVELOPMENTS AFTER THE OIL PRICE QUADRUPLED IN 1973/74 WERE NOT JUSTIFIED. THE FINANCIAL SYSTEM DID AT LEAST SURVIVE. BUT THE SITUATION CALLED FOR ADJUSTMENT TO A LONG-TERM WORSENING IN THE TERMS OF TRADE OF MANY INDUSTRIAL COUNTRIES. SOMETIMES THERE WAS TOO MUCH FINANCING OF DEFICITS AND NOT ENOUGH ADJUSTMENT. THAT WEAKENED THE IMPULSE TO ADJUST DOMESTIC COSTS, AND SO HELPED TO ACCOMMODATE INFLATION. THIS MUST NOT BE ALLOWED TO HAPPEN AGAIN. WE MUST SEVER THE LINK BETWEEN OIL AND INFLATION. INDIVIDUALS MUST ACCEPT THAT ENERGY PRICE INCREASES HAVE TO BE MET BY CUTTING SPENDING ON OTHER THINGS AND NOT BY DEMANDING EVER-HIGHER INCOMES.

EXPERIENCE HAS VARIED FROM COUNTRY TO COUNTRY. BUT THIS YEAR'S IMF ANNUAL REPORT ALSO SUGGESTS THAT THE MAIN REASON WHY POLICY IN RECENT YEARS HAS NOT PRODUCED SATISFACTORY RESULTS IS THAT GOVERNMENTS HAVE OFTEN PAID LIP SERVICE TO THE NEED FOR MONETARY RESTRAINT WITHOUT ACTUALLY IMPLEMENTING IT. MONETARY EXPANSION IN THE MAIN INDUSTRIAL COUNTRIES HAS REMAINED IN DOUBLE FIGURES IN EVERY YEAR SINCE 1975.

ANOTHER DAMAGING INFLUENCE HAS BEEN THE BELIEF IN SOME QUARTERS THAT A REGIME OF FLOATING EXCHANGE RATES IN SOME WAY IMMUNIZED COUNTRIES AGAINST EXTERNAL CONSTRAINTS; THAT IT REDUCED THE NEED FOR DOMESTIC FINANCIAL PRUDENCE. THIS WAS NEVER THE CASE. THE IDEA THAT WE COULD SPEND OUR WAY OUT OF TROUBLE, OR THAT THERE WAS SOME RELATIVELY PAINLESS WAY OUT, MEANT, NOT SURPRISINGLY, FAILURE TO SEE OR TO ACCEPT THE CRUCIAL NEED FOR REALISM.

IT IS NATIONAL FAILURES OF THIS KIND THAT HAVE BEEN THE MOST SIGNIFICANT CAUSE OF INTERNATIONAL INSTABILITY IN THE EXCHANGE MARKETS. INFLATION HAS A LARGE SHARE OF THE RESPONSIBILITY FOR THIS INSTABILITY AND FOR THE RUSH, INTERNATIONALLY AS WELL AS DOMESTICALLY, INTO ASSETS REGARDED AS A GOOD STORE OF VALUE. THE FIGHT AGAINST INFLATION IS AT HEART THE FIGHT FOR GREATER CURRENCY STABILITY.

THE PRESENT U.K. GOVERNMENT IS FIRMLY COMMITTED TO POLICIES DESIGNED TO REDUCE INFLATION AND INFLATIONARY EXPECTATIONS. IT IS COMMITTED TO A STRICT MONETARY POLICY IN THE FORM OF A TARGET INCREASE IN THE MONEY SUPPLY FOR THE CURRENT FINANCIAL YEAR AND TO A PROGRESSIVE REDUCTION IN THE SIZE OF THAT TARGET IN THE YEARS AHEAD. WE ARE MAKING IT CLEAR THAT PAY BARGAINING, IF IT IS TO BE REALISTIC AND NOT SIMPLY TO LEAD TO UNEMPLOYMENT, MUST BE CONDUCTED WITH FULL REGARD TO THOSE MONETARY LIMITS. WE ARE TAKING CARE TO BRING THE FISCAL STANCE INTO LINE WITH OUR MONETARY POLICY. THE BURDEN OF ADJUSTMENT TO A SLOWER RATE OF GROWTH OF THE MONEY SUPPLY IN THE FORM OF HIGH INTEREST RATES WILL NOT THEN ALL FALL YEAR AFTER YEAR ON THE PRIVATE SECTOR. WE HAVE SET OURSELVES THE TARGET OF A SUBSTANTIAL REDUCTION IN THE BORROWING REQUIREMENT OF OUR PUBLIC SECTOR FOR THE CURRENT FINANCIAL YEAR. AND FOR FUTURE YEARS WE SHALL SEE THAT IT IS SET AT A LEVEL CONSISTENT WITH OUR MONETARY POLICY— ANX WHICH DOES NOT IMPLY EXCESSIVELY HIGH INTEREST RATES, WITH CONSEQUENT "CROWDING OUT" OF PRIVATE SECTOR BORROWING.

/THIS MEANS

THIS MEANS THAT WE HAVE HAD TO UNDERTAKE A FULL SCALE REVISION OF OUR PUBLIC SPENDING PLANS. THE BURDEN OF PUBLIC EXPENDITURE SHOULD BE DETERMINED BY WHAT THE NATION CAN AFFORD. HIGHER EXPENDITURE ON PUBLIC SERVICES SHOULD FOLLOW AND NOT PRECEDE, AND THUS PREVENT, GROWTH IN THE PRIVATE SECTOR.

ALONGSIDE THE CRUCIAL FIGHT AGAINST INFLATION, WE HAVE RECOGNIZED THE NEED FOR POSITIVE ACTION TO IMPROVE THE SUPPLY SIDE OF OUR ECONOMY. THIS HAS BEEN DISREGARDED FOR FAR TOO LONG. INDEED IN A NUMER OF IMPORTANT RESPECTS GOVERNMENTS IN THE UNITED KINGDOM HAVE IN THE PAST TAKEN ACTION OR ADOPTED ATTITUDES WHICH HAVE POSITIVELY HINDERED OUR ECONOMIC PERFORMANCE. I SUSPECT THAT OUR COUNTRY IS FAR FROM BEING ALONE IN THAT EXPERIENCE. WE HAVE NEGLECTED, IN FAVOR OF EXCESSIVE GOVERNMENTAL INTERVENTION, THE PRINCIPLES OF ECONOMIC FREEDOM IN A FRAMEWORK OF ORDER-- WHICH SURELY CONTRIBUTED TO THE REMARKABLE MATERIAL SUCCESS OF MOST INDUSTRIAL COUNTRIES IN EARLIER YEARS. THE SAME PRINCIPLES OFTEN SEEM TO GUIDE THE MOST SUCCESSFULLY DEVELOPING COUNTRIES OF THE PRESENT TIME.

IN THE UNITED KINGDOM WE ARE NOW MAKING A MAJOR AND RADICAL EFFORT TO RESTORE THIS APPROACH, TO ENLARGE THE ROLE OF THE MARKET AND SO TO ALLOW OUR ECONOMY TO DEVELOP ITS POTENTIAL. FOR EXAMPLE:

- WE ARE DISMANTLING REGULATIONS WHICH HAVE OUTLIVED THEIR USEFULNESS, SUCH AS EXCHANGE CONTROLS: OR WHICH PRODUCED SEVERE DISTORTIONS FOR LITTLE LASTING BENEFIT, SUCH AS CONTROLS ON PAY, PRICES AND DIVIDENDS.
- WE ARE CHANGING OUR TAX STRUCTURE TO REDUCE TAXES ON INCOME AND THUS TO IMPROVE INCENTIVES AND REWARDS FOR RISK-TAKING AND INNOVATION.
- WE ARE ROLLING BACK THE FRONTIERS OF THE PUBLIC SECTOR FROM THOSE AREAS WHERE IT HAS BEEN MOST BURDENSOME, INCOMPETENT OR COUNTER-PRODUCTIVE.

---/THERE HAS,

THERE HAS, OF COURSE, BEEN INTENSE DEBATE ABOUT THE IMPLICATIONS OF NORTH SEA GAS AND OIL FOR OUR ECONOMY. IT HAS BEEN HAILED BY SOME AS A SAVIOR AND BY OTHERS AS A CURSE. IT HAS BEEN CLAIMED ON THE ONE HAND THAT IT INSULATES US FROM THE WORLD'S ENERGY PROBLEM, AND ON THE OTHER THAT ITS "ARTIFICIAL" IMPACT ON THE VALUE OF OUR CURRENCY WILL DESTROY OUR EXPORT INDUSTRIES. BOTH VIEWS ARE EXAGGERATED. THE MORE BALANCED CONCLUSION IS THAT THE NORTH SEA MAKES A USEFUL BUT BY NO MEANS DECISIVE CONTRIBUTION TO OUR ECONOMY. IT OFFERS AN UNCOVENANTED OPPORTUNITY TO RESTORE OUR ECONOMY TO HEALTH. WHETHER THAT OPPORTUNITY IS TAKEN OR WASTED DEPENDS TO A VERY LARGE EXTENT UPON THE WAY IN WHICH WE IN THE UNITED KINGDOM RESPOND. CERTAINLY THE GOVERNMENT INTENDS, THROUGH THE POLICIES THAT I HAVE OUTLINED, TO MAKE GOOD USE OF THAT OPPORTUNITY.

I HAVE SPOKEN AT SOME LENGTH ABOUT THE BRITISH ECONOMY, BECAUSE THAT IS MY OWN MOST IMMEDIATE RESPONSIBILITY. BUT I HAVE DONE SO TOO BECAUSE I AM CONVINCED THAT THE GREATEST CONTRIBUTION WHICH EACH OF US CAN MAKE TO WORLD ECONOMIC SUCCESS IS TO DO ALL WE CAN TO DEVELOP THE STABILITY AND THE POTENTIAL OF OUR OWN ECONOMIES. OF COURSE, WE MUST TAKE ACCOUNT OF THE IMPACT OUR ACTIONS MAY HAVE ON EACH OTHER, AND RECOGNIZE THE INTERNATIONAL ASPECTS OF THE PROBLEMS WE FACE. BUT OUR PRINCIPLE AND MOST ACHIEVABLE PURPOSE MUST BE THE ORDERLY ENCOURAGEMENT OF NATIONAL POTENTIAL, WITHIN A FRAMEWORK OF INTERNATIONAL ORDER.

THAT IS THE BASIS UPON WHICH I AM DISPOSED TO CONSIDER OUR RESPONSIBILITY FOR THE MANAGEMENT AND USE OF THE INTERNATIONAL INSTITUTIONS WHICH ARE REPRESENTED AT THIS MEETING. THROUGHOUT THE DIFFICULT PERIOD OF THE LATE 1960S AND 1970S THOSE INSTITUTIONS-- COUPLED WITH THAT OTHER PILLAR OF OUR INTERNATIONAL ECONOMIC ORDER, THE GATT -- HAVE DISPLAYED A PRUDENT AND EFFECTIVE COMBINATION OF FLEXIBILITY AND TENACITY. BY STANDING BY THE PRINCIPLES OF ORDERED ECONOMIC LIBERALISM THEY HAVE SERVED THE INTERNATIONAL COMMUNITY WELL. I AM CONFIDENT THAT THEY WILL CONTINUE TO DO SO.

NOWHERE IS THE WORK OF THE INTERNATIONAL FINANCIAL INSTITUTIONS MORE IMPORTANT THAN IN ADJUSTING ECONOMIC RELATIONSHIPS BETWEEN THE INDUSTRIALIZED AND THE LESS DEVELOPED COUNTRIES. AT NO TIME HAS THAT TASK BEEN MORE IMPORTANT THAN IT IS TODAY.

THE WORD "INTERDEPENDENCE" IS OFTEN USED. IT SERVES TO EMPHASISE ON THE ONE HAND THE EXTENT TO WHICH THE INDUSTRIALISED COUNTRIES CAN AND SHOULD CONTRIBUTE TO THE ECONOMIC VITALITY OF THE DEVELOPING WORLD -- AND, ON THE OTHER HAND, TO UNDERLINE THE WAY IN WHICH ECONOMIC GROWTH IN THE THIRD WORLD ADDS TO PROSPERITY IN THE INDUSTRIAL WORLD. IN THAT SENSE INTERDEPENDENCE IS CLEARLY A TWO-WAY STREET.

BUT IT IS NOT JUST A TWO-WAY STREET. IT IS A TWO-WAY BET AS WELL. FOR THERE CAN BE NO DOUBT THAT BETTER ECONOMIC PERFORMANCE IN THE INDUSTRIALISED COUNTRIES IS A PRECONDITION FOR THE SIGNIFICANT IMPROVEMENT OF LIVING STANDARDS IN THE THIRD WORLD. AS THE WORLD DEVELOPMENT REPORT RECOGNISES, LOW GROWTH IN THE INDUSTRIALISED COUNTRIES WILL ADD TO THE RISK OF POVERTY IN THE THIRD WORLD. THE CREATION OF WEALTH IS NOT A PROCESS IN WHICH THE GAINS OF ONE COUNTRY OR INDIVIDUAL ARE AT THE EXPENSE OF OTHERS. THIS IS NOT JUST AN ECONOMIC MATTER. IT IS A MATTER OF POLITICAL IMPORTANCE AS WELL. IT HAS BEEN SAID MANY TIMES AT THIS CONFERENCE THAT THE ABILITY TO INCREASE AID PROGRAMS IS 'A MATTER OF POLITICAL WILL.' THAT IS NO DOUBT TRUE. BUT THAT WILL IS NOT EASILY MOBILISED, EVEN IN FAVORABLE ECONOMIC CIRCUMSTANCES. IT IS, I SHOULD JUDGE, IMPOSSIBLE OF ACHIEVEMENT, EVEN IN ADVANCED ECONOMIES, WHERE PROSPERITY IS ITSELF IN DOUBT.

THAT IS WHY I HAVE EMPHASISED THE RESPONSIBILITY OF EACH DEVELOPED COUNTRY TO DO WHAT IT CAN TO PROMOTE ITS OWN PROSPERITY -- AMONG OTHER THINGS BY AN APPROPRIATE RESPONSE TO THE EFFECTS OF OIL PRICE INCREASES. OBVIOUSLY THESE SHARP PRICE ADJUSTMENTS HAVE CAUSED GREAT DIFFICULTIES FOR THE POORER COUNTRIES OF THE WORLD AS WELL. MEANWHILE THE ABILITY OF THE INDUSTRIALISED COUNTRIES TO HELP THE POORER COUNTRIES HAS BEEN, AT LEAST FOR THE TIME BEING, DIMINISHED.

IT IS AGAINST THIS BACKGROUND THAT THE INSTITUTIONS HAVE SUCH A PIVOTAL ROLE TO PLAY. FORTUNATELY AMPLE FACILITIES ARE AT PRESENT AVAILABLE TO THE FUND. SUBSTANTIAL INCREASES IN LENDING FACILITIES HAVE NOW BEEN ACHIEVED OR ARE IN PROSPECT. LAST YEAR'S DECISIONS TO INCREASE QUOTAS BY 50 PER CENT WILL, I HOPE, BE RATIFIED BEFORE TOO LONG AND COME INTO FORCE. THE SUPPLEMENTARY FINANCING FACILITY IS NOW IN PLACE, DOUBLING THE AMOUNTS AVAILABLE TO BE BORROWED BY MEMBERS UNDER THE CREDIT TRANCHES. AS YET THIS HAS BEEN SCARCELY DRAWN ON. ACCESS TO THE COMPENSATORY FINANCING FACILITY HAS JUST BEEN EASED. THAT TOO WILL BE INCREASED WITH THE NEW QUOTAS. FINANCE ON THIS SCALE SHOULD BE ADEQUATE. THESE FACILITIES SHOULD CERTAINLY BE MORE FULLY USED. NOW THAT THE RULES GOVERNING CONDITIONALITY HAVE BEEN LIBERALISED, I HOPE THAT DEVELOPING COUNTRIES WILL FIND IT ACCEPTABLE TO WORK CLOSELY WITH THE FUND AND EXPLOIT TO THE FULL THE RESOURCES NOW AVAILABLE TO HELP THEM OVERCOME THEIR PROBLEMS.

THE U.K. GOVERNMENT WARMLY WELCOMES THE AGREEMENT RECENTLY REACHED FOR A DOLLARS 40 BILLION GENERAL CAPITAL INCREASE. WE HOPE THAT RATIFICATION OF THIS AGREEMENT BY A CONVINCING MAJORITY OF THE BANK'S GOVERNORS WILL FOLLOW WITHOUT FURTHER PROBLEMS, SO THAT THE BANK WILL NOT LACK THE RESOURCES TO CONTINUE WITH AN EXPANDING LENDING PROGRAM IN THE YEARS AHEAD. I ALSO WELCOME THE BANK'S INTENTION TO UNDERTAKE AN EXAMINATION^N OF ITS LENDING POLICIES. THE BANK MUST ENSURE THAT ITS METHODS OF CHANNELLING FUNDS TO DEVELOPING COUNTRIES IS FULLY APPROPRIATE TO TODAY'S CHANGING NEEDS.

BORROWING FROM THE WORLD BANK (OR FROM PRIVATE SOURCES OF FINANCE) HAS NOT, OF COURSE, BEEN THE MAIN SUPPORT FOR THE LOW-INCOME DEVELOPING COUNTRIES -- WHICH CONTAIN NEARLY 40 PER CENT OF THE POPULATION OF ALL FUND MEMBERS. OF MUCH MORE SIGNIFICANCE TO THESE COUNTRIES IS THE SCALE OF OPERATION OF THE INTERNATIONAL DEVELOPMENT ASSOCIATION. MY GOVERNMENT REAFFIRMS ITS SUPPORT FOR A SIXTH REPLENISHMENT OF IDA ON A SCALE WHICH WILL PERMIT CONTINUED EXPANSION IN IDA LENDING TO THE POOREST COUNTRIES.

IT IS IN THIS CONTEXT TOO THAT WE HAVE CONSIDERED PROPOSALS FOR THE ESTABLISHMENT OF A SUBSTITUTION ACCOUNT IN THE FUND. PROVIDED THAT THE PRACTICAL PROBLEMS INVOLVED IN SETTING IT UP CAN BE OVERCOME, A SUBSTITUTION ACCOUNT OF THE KIND PROPOSED COULD IN PRINCIPLE MAKE A LIMITED BUT USEFUL CONTRIBUTION TO THE STABILISATION OF EXCHANGE RATES. THE PROBLEMS ARE CERTAINLY DIFFICULT --AND MAY PROVE INTRACTABLE -- BUT MY HOPE IS THAT WE CAN APPROACH THEM CONSTRUCTIVELY IN A GENUINE ATTEMPT TO FIND A SET OF ARRANGEMENTS WHICH WILL WORK WELL. THOUGH THE BENEFITS OF A SUBSTITUTION ACCOUNT MAY BE WORTH HAVING, BECAUSE EVEN MODEST BENEFITS ARE ALWAYS WORTH HAVING, IT SERVES NO ONE'S INTERESTS TO PRETEND THAT AVAILABILITY OF SUCH AN ACCOUNT WILL MAKE A DRAMATIC CONTRIBUTION. CERTAINLY IT SHOULD BE SEEN AS FORTIFYING RATHER THAN REDUCING THE NEED FOR DISCIPLINE IN EACH NATION'S MONETARY POLICY.

MEANTIME WE MUST ALL HOPE THAT FLOWS FROM THE PRIVATE SECTOR TO MANY LDCS WILL CONTINUE TO GROW. THESE SHOULD INCLUDE NOT ONLY LENDING FOR DEVELOPMENT THROUGH THE PRIVATE BANKING SYSTEM --BUT ALSO A MUCH WIDER RANGE OF PRIVATE INVESTMENT FROM THE INDUSTRIAL COUNTRIES. I HAVE THE IMPRESSION THAT SEVERAL OF THE MOST SUCCESSFUL LDCS HAVE BENEFITED MOST FROM ENCOURAGING INVESTMENT OF THIS KIND. THE UNITED KINGDOM HAS RECENTLY MADE A FURTHER CONTRIBUTION IN THIS DIRECTION BY THE RELAXATION OF EXCHANGE CONTROLS ON DIRECT INVESTMENT OVERSEAS.

ANY POLICY CHANGES WHICH THE DEVELOPING COUNTRIES MAY HAVE TO MAKE IN THE DIFFICULT PERIOD AHEAD SHOULD NOT BE MORE SEVERE THAN IS ABSOLUTELY NECESSARY. I HOPE THAT THEY WILL USE TO THE FULL THE FACILITIES AVAILABLE TO THEM, IN THE FUND IN PARTICULAR. TAKING TOGETHER OFFICIAL BILATERAL AID, THE RESOURCES OF THE INTERNATIONAL ORGANISATIONS, AND THE MONEY AVAILABLE THROUGH THE INTERMEDIATION OF THE PRIVATE BANKING SYSTEM, I BELIEVE THAT THE NEED CAN BE MET IN LARGE MEASURE.

BUT WE SHALL NEED TO GET THE MIX RIGHT. AFTER THE FIRST OIL PRICE INCREASES AT THE END OF 1973, THE COMMERCIAL BANKING SYSTEM, AS WE ALL KNOW, PLAYED A MAJOR, AND INDEED AN INVALUABLE ROLE. BUT THERE WAS PERHAPS TOO LITTLE COORDINATION BETWEEN FLOWS OF FUNDS RAISED IN THE PRIVATE MARKETS, AND THOSE FROM THE OFFICIAL INSTITUTIONS. MONEY FROM PRIVATE SOURCES MAY SOMETIMES BECOME AVAILABLE ALMOST TOO READILY, AND IN SOME CASES THE DOMESTIC POLICIES OF RECIPIENT COUNTRIES WERE NOT CHANGED WHEN THEY SHOULD HAVE BEEN. THE LATER PROBLEMS OF ADJUSTMENT THUS BECAME MUCH MORE SERIOUS.

IN THE MONTHS AND YEARS AHEAD THE COMMERCIAL BANKING SYSTEM MAY WELL BE MORE CAUTIOUS BECAUSE OF THE EXISTING BURDEN OF INDEBTEDNESS FROM THE EARLIER ROUND OF LENDING. EVEN SO THE ROLE OF THE PRIVATE SECTOR WILL CONTINUE TO BE ESSENTIAL. I BELIEVE THAT IN THE INTERESTS OF DEVELOPING COUNTRIES BOTH THE BANK AND THE FUND SHOULD BE LOOKING FOR MORE WAYS OF COOPERATING WITH THE COMMERCIAL BANKS AND OF FACILITATING RESPONSIBLE LENDING BY THEM.

BUT I END AS I BEGAN. THE RESOURCES WHICH THE INDUSTRIALISED COUNTRIES CAN PROVIDE FOR DEVELOPMENT AID ARE CONDITIONED BY THEIR ECONOMIC STRENGTH AND CAPACITY TO PAY. AS LONG AS THE WORLD IS RIGHTLY PUTTING THE FIGHT AGAINST INFLATION FIRST, THE LESS DEVELOPED COUNTRIES WILL SUFFER NOT JUST BECAUSE THE MARKETS FOR THEIR PRODUCTS ARE DEPRESSED, BUT ALSO BECAUSE THE STRENGTH OF THE DONOR COUNTRIES IS GROWING MORE SLOWLY. THE LESS DEVELOPED COUNTRIES, LIKE THE REST OF THE WORLD, NEED THE RESUMPTION OF SUSTAINED ECONOMIC GROWTH. THE PREREQUISITE FOR THIS IS THAT THE INFLATION CONSTRAINT WHICH IS HOLDING US ALL BACK SHOULD BE REMOVED.

MY INSISTENCE ON THE NEED TO GIVE FIRST PRIORITY TO FIGHTING INFLATION DOES NOT FOR ONE MOMENT MEAN THAT WE ARE TURNING OUR BACKS ON THE LDCS, OR ON THE DEEPLY SERIOUS PROBLEM OF UNEMPLOYMENT IN OUR OWN COUNTRIES. IT SIMPLY MEANS, AS THE MANAGING DIRECTOR HAS SAID, THAT WE SEE NO ALTERNATIVE WAY OF GETTING BACK TO SUSTAINABLE GROWTH. MONETARY "STIMULI" SIMPLY WILL NOT WORK IN THE WORLD IN WHICH WE NOW LIVE. INFLATION PRODUCES MORE INFLATION AND MORE UNEMPLOYMENT, NOT MORE GROWTH.

SO THIS IS THE BEST COURSE IN THE INTERESTS OF DEVELOPING AND DEVELOPED COUNTRIES ALIKE. I DO NOT UNDERESTIMATE THE POLITICAL DIFFICULTIES. IT IS A COURSE WHICH CALLS FOR PATIENCE, AND FOR POLITICIANS PATIENCE IS THE SCARCEST RESOURCE OF ALL. BUT THERE IS NO OTHER WAY.

IT WOULD BE WRONG TO END ON TOO GRIM A NOTE. THE WORLD PROSPECT IS DISAPPOINTING, THE DIFFICULTIES GREAT. BUT THERE ARE STILL RESERVES OF STRENGTH AND RESILIENCE IN THE WORLD ECONOMY. THIS HAS BEEN DEMONSTRATED IN THE FACE OF OIL SHOCKS AND VAST PAYMENTS IMBALANCES. THERE IS GREAT STRENGTH IN THE FORCES SUSTAINING ACTIVITY IN MANY OF OUR ECONOMIES. THE MARKET PLACE HAS SHOWN ITS RESILIENCE. THERE IS GREAT STRENGTH TOO, DEMONSTRATED IN THE DISTURBED DECADE NOW ENDING, IN THE INTERNATIONAL INSTITUTIONS WHOSE ANNUAL MEETINGS WE ARE NOW ATTENDING AND IN THE CONTRIBUTION THEY MAKE TO WORLD ECONOMIC ORDER. IN THE FRAMEWORK OF ORDER WHICH THEY HELP TO PROVIDE LET US DO OUR UTMOST TO LIBERATE AND SO MOBILIZE THE TALENTS OF OUR PEOPLE.

FARQUHARSON

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