Observations on the FCO Memorandum

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A Conflict of Philosophies

The contrasting philosophies behind the Brandt Report and the Government's Memorandum issued through the FCO (hereafter referred to as the Memorandum) should cause us more worry than differences on particular measures. Indeed, it is only fair to acknowledge at the outset HMG's support for particular Brandt proposals and, more than that, that HMG has surpassed several of its contemporaries in this regard: eg replenishment of IDA; doubling the capital of the World Bank; use of SDRs; support for world food stocks and (however belated) support for a 'common fund' for commodity stabilisation programmes. Notwithstanding these particular points of support, the basic philosophies of the two documents sharply differ.

Growth vs Inflation

The Memorandum declares that the Western countries must be the 'main motors of growth in the world economy'. It goes on:

> *the record of the 1970s shows that durable growth can only be achieved if these countries adjust to the higher cost of oil and bring inflation under control. This must be the first priority.* |para 9|

The most negative responses to the Brandt Report that follow stem from this one proposition. If it is right one has to concede much of the Government's case. But is it right?

As to the record of the 1970s, Britain's economic performance shows rising unemployment, slow and at times negative growth, and rapid, at times faster and at times slower, inflation. The present Government like the previous Government has anti-inflationary policies. As these are so far unsuccessful, how can it be said that 'the record shows' they are essential to sustained growth? The Government may *believe* that growth is only possible when inflation has stopped, but there is no *evidence* for this and their case against Brandt, and their stance on a host of other critical issues, hangs on this unproven theorem.

To challenge the Government's case against Brandt is to open up another aspect of the 'growth vs inflation' issue. Although such a heavily trampled ground, a recent article deserves a reference in this context. Anthony Harris |*Financial Times*, 25 September 1980| challenges the widely accepted cliché that:

> *our most pressing national problem is inflation.*

Inflation is not the disease, but the symptom of, perhaps, several diseases. It manifests itself, he writes:

> *as the means by which an economy squares excessive claims with limited resources.*

The present 'anti-inflationary' policies followed by the leading industrial countries must mean that the rate of decline in world industrial and trading activity must decline even further. If these same countries are the 'motors of growth' of the world economy, they seem bent on motoring themselves and the rest of the world down the road to ruin. It is regrettable that HMG can point to concurrent policies in other industrial countries, but no government can quite match the British Government in stifling potential economic growth.

This cannot be right. The performance record does not show that these 'anti-inflationary' policies should have the first priority. If it is argued that inflation is the symptom of 'too much money chasing too few goods', we are entitled to say that, at this stage at least, it is as necessary to stimulate the supply of goods as it is to curb the money supply. But the logic of the Brandt Report compels us to go further; to conclude that economic growth (of the right kind) at home and throughout the world should now have the first priority, and that the promotion of economic activity throughout the world is the best way to control inflation, because inflation is the symptom of a scarcity of resources, as much as anything else.

World Expansion—a Cure for Britain's Ills

Only if we stand the Government's argument on its head and assert that *expansion not contraction is the answer to present difficulties including inflation* does the Brandt Commision sound sensible. Two reasons may be given for contemplating such a reversal. The first is Britain's own dependence on world trade.

We can still depend on 'invisibles' supplemented by our uncovenanted blessing of North Sea oil to keep our external payments in balance, but the expansion of world economic activity holds the only hope of improvement in our own exports. With the present strength of the pound (due to our oil quite as much as

* These are extracts from a longer document, prepared in November 1980.

present high interest rates) we are one of the few economic centres in a position to take the lead in promoting this expansion.

To extend our overseas investment and assistance may be the best thing we could do to help ourselves. This is what Brandt invites us and other 'motors of growth' to do. Because the Government is wedded to the opposite policy of retrenchment it has to reject this approach. The reasons it gives for doing so are, however, different: it argues for example that Brandt's catalogue of 'un-met needs' round the world may not be accurate.

The second reason is that international pump-priming works. In recent years when governments have done little, the injection of petrodollars into Third World economies has enabled Third World countries to maintain their imports. The Brandt Report quotes independent estimates of the benefits to industrial economies: the *prevention* of a fall in economic growth of the OECD countries and the creation of some 900,000 jobs each year from 1975 to 1978.

The recycling of petrodollars in this way is now at risk through the resulting build-up of indebtedness. The sort of 'injections' proposed by Brandt would have much the same effect as the recycling of petrodollars. Rather than examine this possibility, the Government are 'convinced' that 'massive extra injections' will not work [Memorandum, para 13].

Brandt's main proposal here is for a combination of recyling surpluses with some sort of international levy for specific development purposes, with all the various sources of funds welded into a more predictable and massive programme of resource transfers. This is dismissed in paras 11-21 of the Memorandum and in annexe P4 26. It is probably the Keynesian overtones in Brandt that the Government is really objecting to. We acknowledge that an unrestrained national type of Keynesianism is not suitable for Britain today, where government spending is out of hand on the domestic and military front, but this should not obscure the opportunity for stimulating the world economy; it is not beyond the wit of finance ministers to treat their domestic and external ills somewhat differently.

The Government proposes that all countries should take the medicine it prefers for Britain; it is *convinced that adjustment to higher oil prices and fighting inflation must be the first priority for* **all** *countries* [para 21a)] and again:

> *this adjustment which will have to be made by developed and developing countries alike, will inevitably produce a period of slower growth*
> [para 13].

No reason is given for this blanket treatment of the world's widely differing economies, all of which will however be 'adjusting' to their oil problems without advice from this quarter.

Official Assistance – Aid

The Memorandum recognises that aid, for the poorest, is still needed [para 18]. As we have acknowledged at the start, the government supports some strengthening of the present international machinery; it also commends those countries that have increased their aid recently and proposes that oil rich states (who already give most in GNP terms) should give more. But it has cut its own programme. For richer countries, the Memorandum says, inflation makes it 'hard' to increase aid [para 19]. It says also:

> *the same conditions causing the economic plight of many developing countries also make it more difficult for us to respond to calls for increased aid*
> [annex 5 p 26].

I weep for you, the walrus said, I deeply sympathise. Adjustment for richer countries may mean cutting bloated expenditure: in some poorer countries it means the perpetuation of poverty, malnutrition and the presence of death. To equate the sacrifice required from rich and poor alike is not only economic nonsense but immoral. Under fire, weak and strong alike take cover, but the strong are not absolved of their responsibility to help the weak.

Conclusion

We have noted that the Memorandum is reasonable and supportive over a number of issues mentioned by Brandt; on aid for the poorest, food and agriculture, commodities, trade policy, even on energy, where the Memorandum may be taken as giving qualified approval to the latest World Bank proposals. But these are affirmations of conformity within the limited concessions that richer countries have made or are still discussing. A few examples remind us how limited they are: the trade liberalisation measures permit drawback whenever sensitive items can be pleaded. The commodity fund is circumscribed and far smaller than its authors thought necessary. While the money resources pledged to the World Food Programme have risen over 150 per cent in ten years, the increase in terms of food shipped was only 2 per cent. The 0.7 per cent GNP aid target is approved – without a date for reaching it. Oil and gas fields of immense local value have been discovered in developing countries, but not developed as being too small to interest the big companies. World Bank proposals can do something about this, but HMG have to add the warning that

> *they believe that prices and the market mechanism have an essential role to play . . .* [para 24].

In sum, the points in the Memorandum of apparent agreement with Brandt are not agreement with uniquely Brandt proposals, but with schemes already in train which Brandt also endorses, even though they are but steps on the way.

We conclude that, apart from particular points of conflict or concurrence with Brandt, the Memorandum shows that the main thrust of present UK policies and philosophy is not compatible with those of the Brandt Commission. To insist that governments must put their own houses in order before they can contribute internationally simply ignores Brandt's demonstrations of the possibility of mutually supportive actions to solve current problems. Is it not at least worth investigating inflation as a symptom of international disorder, inter-governmental action being an essential part of the treatment of our own underlying disease? Instead of resisting reforms to the existing international structure, is it not fair to agree that 'the record shows' that it is not working very well?

We do not belittle Britain's present difficulties, but we fear that the Government's present policies will intensify, not relieve them; and that the right alternative lies in mutual efforts to stimulate the world economy on the lines indicated by the Brandt Report. We believe this should be seriously re-examined by any British Government.