CONFIDENTIAL

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

2 September 1980

The Rt. Hon. The Lord Carrington, KCMG, MC
Secretary of State for Foreign and
Commonwealth Affairs

Dear Peter

DEVELOPMENT POLICY

We have made it clear in our actions and in a series of statements that our policy on overseas aid differs from that of the previous Government. In my view however there is now a good case for adopting a new stance about the development process and the role of aid in it, which moves away from some of the more conventional wisdom on the subject. I attach a paper which explains what I have in mind and draws some policy conclusions (paragraph 18).

The Venice Summit recognised that longstanding assumptions about official aid and the obligation to provide it had been called in question. In fact events over the last decade have made those assumptions look less relevant. It is no accident that at Venice and other international gatherings discussion of aid has broadened into discussion of "recycling", thus bringing private sector flows back into the centre of the development process. We expect the questions of aid and recycling to come back to the next Seven-Power Summit in mid-1981, and of course we shall hear a lot more of them in other fora before then.

I accept, of course, that we should avoid putting ourselves in a position where other industrial countries can put the blame on the UK for saying "no" on any particular issue to the developing countries. But I was struck by the extent to which Schmidt and Giscard expressed - privately - much the same views at the Venice Summit as our own, and I think we can expect our approach

/increasingly

increasingly to be shared by our European partners. I do not suggest that we expound the argument in the paper in an aggressive way in international meetings. On the other hand I believe the paper contains sound reasons why - in the interests of the LDCs as well as those of the UK - we need not be defensive about our policies on aid, either at home or overseas. What I do suggest is that we use the argument steadily when necessary and when opportunity offers. On this basis I hope that you and other colleagues would agree with what is said in paragraphs 17-22 of the paper.

I am copying this minute and enclosure to the Prime Minister, to other members of OD and to Sir Robert Armstrong.

GEOFFREY HOWE

DEVELOPMENT POLICY

This paper proposes a change of stance about economic development in the Third World Countries and about the role of official aid in the development process.

2. It has long been a convention of international discussions that there is a great divide in the non-Communist world between the industrialised countries of the North (OECD) and the developing countries of the South (the Group of 77, now in fact about 120). Official aid has been seen as a key factor in the development of Third World countries and this has been institutionalised by the acceptance of an aid target for industrialised countries of 0.7% of their GDP. The 0.7% target remains one of the main foci of Third World policies and efforts. There was also a second target of 1% transfer in total financial flows, which has been substantially exceeded because of the growth of private flows, but about which little is heard. Much attention has been devoted to the redistributive principle of a levy on the industrialised countries. For many this was the counterpart of the redistributive principle at home and also imposed a continuing obligation on former imperial powers in favour of their previously dependent territories. Less attention was given to the effectiveness or direction of aid, which raised questions about domestic policy and administrative efficiency in developing countries.

3. Recent developments in at least 4 related areas make this approach look increasingly irrelevant:

i. the biggest single factor has been the increase in oil prices and all that has flowed from it. The actions of OPEC have brought out the disparity of interest and circumstances among the developing countries. The oil exporters themselves have scored dramatic increases in GNP per head; some newly industrialised countries have been able to adjust through the achievement of high rates of growth in manufacturing; and a third Group of poorer non-oil countries - especially in Africa - has been very heavily penalised;

ii. taking developing countries in the aggregate, the relative importance of official aid to market borrowing has changed drastically. In 1970 official flows and private flows were roughly equal, but by 1979 the latter were twice as important as the former. Total flows doubled in real terms over the period, but whereas official flows rose by 30%, private flows rose by 150% (Table 1). This aggregate picture conceals widely different experience at the receiving end between market-worthy and non market-worthy developing countries. The growth of private flows has been largely caused by the oil price increases, and the pattern of surpluses and deficits resulting from them. The effect has been to accord far greater importance to private flows and to "recycling"; to bring out the varying circumstances of the LDCs; and to reduce the relative role of official aid;

iii. as reflected in the Tokyo and Venice Summit communiques, the OECD countries are increasingly reluctant to accept primary responsibility for the development needs of LDCs. The LDCs have suffered greater damage from the oil price increases than they have gained from aid; growth in industrial countries has been sharply reduced; and the urgency of the fight against inflation has stiffened reluctance to increase public expenditure on aid. The US Congress has shown a revulsion from aid-giving which has delayed and impaired US support for the World Bank. US officials have begun to talk about moving away from the 0.7% approach and looking at assistance of all kinds in relation to the GNP of particular recipients;

iv. the great range of economic development within the Third World has called in question the convention of the "great divide" between North and South and the automatic assumption of the need for transfer of resources from the one to the other. Countries like Korea, Taiwan and Singapore have grown very fast, have become major manufacturing and banking centres, and have overhauled some OECD countries of Southern Europe in GDP per head. The issue with them is certainly not aid, but trade relations - integrating them into an open world trading economy. In Africa, on the other hand, civil disorder and maladministration have caused many countries to fall further behind than ever.

The Diversity of the Third World: Some Key Statistics

i. Income

4. Throughout the last two decades, GDP in the Third World grew faster than that in OECD countries (Table 2). But the average growth masks wide disparities. "Low income" countries - those with less than \$360 per head in 1978 - grew slowest, by about ¾% per annum; while the countries of East Asia, for example, achieved a very high rate - about 8% - in the 1970s.

5. The disparity of growth rates is further accentuated by population trends; there is some tendency for population to rise faster in poorer than in middle-income countries. Whereas per capita income rose steeply in East Asia, in Sub-Saharan Africa there was virtually no growth at all in the 1970s. The per capita benefits of aid can be offset by rapid population growth.

6. As a result of differential rates both of economic growth and of population increase, the absolute disparities of per capita income within the Third World are enormous - \$90 per annum for Bangaldesh, \$14,900 for Kuwait. Indeed, the "richer" G77 countries (including main oil exporters) are now better off than the poorer OECD countries. Thus for example:-

GDP PER HEAD IN 1978 (US DOLLARS)

"Poor" OECD		"Rich" G77	
Italy	3840	Kuwait	14890
Spain	3520	Saudi Arabia	8040
Ireland	3470	Libya	6910
Greece	3270	Singapore	3260
Portugal	2020	Venezuela	2910
		Trinidad & Tobago	2910
		Argentina	1910
		"Poor" G77	
		Bolivia	510
		Egypt	400
		Pakistan	230
		Zaire	210
		India	180
		Bangladesh	90

(ii) Balance of Payments

7. A developing country is likely by definition in most years to be an importer of capital for development and to run a current account deficit on its balance of payments. The IMF expect the aggregate deficit of LDCs to reach 4¾% of GNP in 1980 compared with 6% in 1975 and an average of 3¾% between 1972 and 1979. Experience in 1980 is expected to differ as follows, however:

a. net exporters of oil 2.5%
b. exporters of manufactures 3.5%
c. low income countries 7%
d. other importers of oil (other than b. and c.) 7.5%

8. The figures in Table 4 compare for various groups the growth of real export earnings - that is export earnings divided by growth in import prices. This measures the volume of additional imports which can be purchased. In the period since high oil prices, two groups within G77 fared particularly well. First, those non-OPEC LDCs who are either self-sufficient in oil or are minor oil exporters enjoyed a growth of real export earnings of over 9% a year. Secondly, the major exporters of manufactures achieved increases of 6½% a year. Again, the lowest income countries fared worst - real export earnings increasing by less than 1% in 1972-79 because of the oil price increases.

(iii) External Debt

9. Between 1973 and 1980 the external debt of LDCs is estimated to have increased by about 3½ times, an annual rate of increase of 20% (see Table 5). But the significance of these figures is obscured by the inclusion of net exporters of oil, including Mexico, which have no credit problem. Mexico in particular has been a heavy borrower. If the net oil exporters are excluded debt as a share of GDP rises over the period from 13½% to 17½% and, as a percentage of exports, from 67% to 69%. For the aggregate of all LDCs the debt service ratio has risen from 9% to 11%. This is nothing like as dramatic an increase as might have been expected in view of the increase in the debt total. A combination of continued growth in export volume and a rise in export prices as part of the general inflation has meant that the real burden of indebtedness has been greatly eroded.

10. But again, within the overall picture the position varies considerably. The debt service ratio of the major exporters of manufactures, who account for 38% of total indebtedness, rose hardly at all, while that of the low income countries increased from 9% to 15½%. Once again, therefore, the poorer countries, which have been particularly vulnerable to oil price increases have suffered most. (Some serious debt cases among middle-income countries have also occurred, but this has been largely through mismanagement.)

(iv) Private Flows and Aid

11. Over concentration on the 0.7% has distracted attention from other flows of financial resources. Table 1 shows the huge growth of private flows in the 1970s rising from $7 billion in 1970 to $43 billion in 1979. (Even after allowing for inflation, the total has more than doubled.)

12. The boundary between what is aid and what is a flow on market terms is a blurred one and has, if anything, become less clear. For example in 1980-81 UK public expenditure includes £150/200m of interest support costs on fixed rate export credit to LDCs in addition to provision for overseas aid of £779m. In fact some part of the £150/200m will be a benefit to LDCs as well as to British exports because the LDCs have been enabled to borrow at below market rates; just as part of the £779m will be a benefit to British exports as well as scoring as aid to LDCs. And reschedulings of private debt of countries like Zaire, Turkey or Zimbabwe have converted some important private flows into what amounts to concessional loans or grants.

(v) Investment and Financial Flows

13. The investment level is obviously of prime importance to economic development. Table 6 shows how far, for different groups of LDCs, domestic investment is financed by domestic savings and how far it is dependent upon inflows from abroad to fill the so-called resource gap. It can be seen that (once again) only in the case of low income countries in Africa is this dependence very significant.

14. The aid component within the inflows is, of course, smaller still. Private flows from OECD countries, as a percentage of investment of LDCs, was 11% in 1979. The comparable proportion for official aid was 5%. Table 3 gives a further illustration of the wide spread of dependence of different groups of LDCs upon official flows in the financing of current account deficits. These data all demonstrate how widely different are the actual needs of particular groups and of particular countries for finance for investment, and how different are their external financing requirements. As we would expect, countries which have a high level of domestic investment have grown fastest, and these tend to be the countries which operate an economic system which is sufficiently liberal and market-orientated to offer scope for profitable investment and to attract inflows of direct or portfolio investment from overseas. The newly industrialised countries of South East Asia, like Japan before them, have achieved impressive economic development through encouraging local entrepreneurs and welcoming private investment from overseas. The same is true of some countries in South America.

15. Within this diverse picture it is the lowest income countries which naturally have the greatest dependence on aid. Even within this group the picture is not uniform. Some countries eg India have been able to make good progress. But it is the low income countries which have been most vulnerable to oil price increases, to excessive population growth and to the political instabilities which have plagued parts of Africa, Asia and Latin America. Their economic future depends on progress on these fronts.

Mutual Interest

16. An argument often used for increased OECD aid is that this will maintain or increase OECD exports to the Third World, and is therefore a particularly suitable form of reflation at a time of world recession, attracting also a political bonus. It is of course true that LDCs and industrialised countries share an interest in sustained world growth. The interest of the LDCs is probably even greater than that of the

industrialised countries; that is why OPEC action is particularly damaging to the non-oil LDCs. But the objections to OECD aid as a means of world reflation are basically the same as the objections to domestic reflation at a time of high inflation. The LDCs share an interest in reduced inflation in the industrialised countries just as they share an interest in their growth, not least because growth will run into a stop unless inflation is controlled. Talk of reflation through aid and "global bargains" lacks realism and tends to obscure the fact that the main route for development lies not through official action or official assessment of mutual interest, but through the free working of the international trading, investment and capital markets.

Implications for our Policy Stance

17. I believe that we should deliberately move away from the conventional approach described in paragraph 2 above, and adopt one with a different emphasis, which takes full account of the developments outlined in paragraph 3. This would not only be in accordance with the general thrust of our policies as a Government, it would be more realistic, and would in fact accord better with the interests of the LDCs themselves.

18. The elements of this new approach would be as follows:

i. the best hope for development, even when a country has limited natural resources, lies in encouraging private investment and welcoming private inflows of capital. The developing country needs to mobilise its domestic savings to finance investment; but thereafter it requires to attract funds from the external sector. It pays handsomely for a developing country to maintain its credit standing for this purpose. This was after all the way in which countries like the United States, Canada, and Australia were developed. When countries such as Sri Lanka choose the opposite path, and drive out foreign capital, they sometimes learn to regret their actions and attempt to reverse them;

ii. the independence of a nation state can only with difficulty be compatible over the longer term with continued dependence upon official assistance. It should be the objective to win freedom from such dependence. Aid ought, therefore, to facilitate adjustment, to attract private investment, and to reduce future aid dependence; it ought, in principle, to be transitional in character;

iii. targets for official aid obscure the real problem. While we should not directly disown the 0.7% target, we should treat it as obsolete and no longer relevant. This is all the more necessary because it exculpates OPEC which already satisfies it several times over;

iv. we should not accept that the older industrial countries be regarded as overwhelmingly the main source of official aid. OPEC countries ought to be important providers of aid and should also share the risks involved in direct lending to LDCs. As was implied in the conclusions of the Venice Summit, the obligation on OPEC derives not from their GNP level but from the impact on non-oil LDCs and on world growth of their action on the oil price, and also from their share in world trade (exports larger than those of US) and their GNP per head;

v. with iv. in mind, and in accordance with the conclusions of our own aid policy review, we should do all we can to avoid or defer new calls for capital by the World Bank on the older industrial countries. If the World Bank is to continue to expand lending at recent high rates, it ought not to be at the expense of those countries;

vi. we should not accept the North/South alignment as a basis for tackling international economic problems. The process of differentiation within both North and South is manifest;

vii. we should recognise that the maintenance of a basically open trading system is important for development, but stipulate that the system ought to apply reciprocally to the stronger developing countries also.

19. In important respects the policies pursued since we took office have been wholly consistent with the change of stance suggested above. We have eliminated exchange control, freeing the flow of UK private investment to developing countries. We have maintained probably the most open economy in the world and have been and are the base of one of the most relevant and effective sources of private sector financial know-how and resources. As can be seen from Table 8, the total of both official and private flows from the UK to developing countries is larger than that from any other country except the USA, and in terms of its proportion of GNP is twice as large as the nearest "competitor" (France).

20. We have also resisted pressures for protection except in sectors and cases where international usage recognises the need for adjustment measures. Our tax structure in no way inhibits UK-based firms from investment in developing countries and our double taxation and other arrangements are generous and help to facilitate private flows.

21. This change of approach would not directly affect our current aid plans or the priorities we agreed following the aid policy review. It would, however, affect our stance at the Commonwealth Finance Ministers Conference and IMF meeting; in the Global Negotiations; in the work of the Personal Representatives commissioned by the Venice Summit; in any future plans for extra demands on the developed countries for multinational aid through the World Bank or the European Development Fund; in the handling of particular cases; and elsewhere.

22. I believe that it will be particularly important to make better known the facts about development set out in this paper. We should seek opportunities to do this; for example, by drawing the attention of commentators to the figures, by using them in Parliament and in speeches elsewhere and perhaps by including them in an appropriate Government publication.

23. I ask my colleagues to endorse these proposals and to agree that we should adopt the suggested stance, particularly in the fields referred to in paragraph 18 above.

Table 1

THE NET FLOW OF FINANCIAL RESOURCES FROM DAC COUNTRIES

Net disbursements	$ million			percentages		
	1970	1978	1979	1970	1978	1979
I. OFFICIAL DEVELOPMENT ASSISTANCE	6 807	19 994	22 267	43	28	32
1. Bilateral grants and grant-like flows	3 320	9 403	11 231	21	13	16
of which: Technical Cooperation	1 524	3 780	4 557	10	5	6
2. Bilateral loans at concessional terms	2 355	3 721	4 549	15	5	6
3. Contributions to multilateral institutions	1 132	6 870	5 487	7	10	9
II. OTHER OFFICIAL FLOWS	1 119	5 069	2 995	7	7	4
1. Bilateral	842	4 912	3 233	5	7	5
2. Multilateral	276	157	-237	2	*	*
III. PRIVATE FLOWS	7 018	43 474	(43 170)	45	62	61
1. Direct Investment	3 690	10 947	(12 900)	23	16	18
2. Bilateral portfolio	697	21 298	(19 630)	4	30	28
3. Multilateral portfolio ..	474	2 228	2 180	3	3	3
4. Export Credits	2 157	9 001	(8 460)	14	10	12
IV. GRANTS BY PRIVATE VOL. AGENCIES	860	1 678	1 974	5	2	3
TOTAL NET FLOW	15 803	70 214	(70 406)	100	100	100
TOTAL NET FLOW IN 1979 PRICES	38 510	76 674	70 406			

TABLE 2 : GROWTH OF GDP AND GDP PER CAPITA

	GDP			POPULATION			GDP PER CAPITA		
	1960-70	1970-80	1980-85[1]	1960-70	1970-80	1980-85	1960-70	1970-80	1980-85
All developing countries	5.6	5.3	5.1	2.5	2.4	2.4	3.1	2.9	2.6
Oil importing countries	5.6	5.1	4.7	2.4	2.3	2.3	3.1	2.7	2.4
Low income	4.1	3.3	4.1	2.5	2.4	2.4	1.6	0.9	1.7
Africa	4.2	3.0	3.1	2.5	2.8	3.0	1.6	0.2	0.1
Middle income	6.1	5.5	4.9	2.4	2.3	2.3	3.6	3.1	2.6
East Asia	7.8	8.0	6.9	2.8	2.3	2.1	4.9	5.6	4.7
Oil exporting ldcs	5.5	6.1	6.3	2.6	2.5	2.7	2.8	3.5	3.5
Capital surplus oil exporters	10.5	8.4	5.3	3.0	3.1	2.8	7.3	5.0	2.5
Industrial countries	5.0	3.1	3.3	1.0	0.7	0.5	3.9	2.4	2.0

Source World Bank Development Report 1980

1 High case projections

TABLE 3 : FINANCING OF CURRENT ACCOUNT DEFICITS AND RESERVE GROWTH 1976-79

	All non oil ldcs	Major exporters of manufactures	Low income countries	Other oil importing ldcs
Official grants and SDRs	15.6	12.1	32.7	16.4
Official loans	29.6	20.8	42.4	25.0
Total official flows	45.1	32.9	75.1	41.4
Private long term lending	42.3	53.7	3.2	27.9
Direct investment	12.2	14.1	3.2	6.9
Other	3.4	-0.8	22.3	17.2
Total	100.0	100.0	100.0	100.0

Source : IMF WEO March 1980

TABLE 4 : GROWTH OF REAL EXPORT EARNINGS

	1967-72	1972-79
All non-oil ldcs	7.7	5.5
Net oil exporters	4.7	9.2
Net oil importers	8.2	3.0
of which major exporters of manufactures	11.0	6.6
Low income countries	3.4	0.8
Other oil importing ldcs	5.1	3.8

Source : IMF WEO March 1980

TABLE 5 : EXTERNAL DEBT[1] OF LDCS

Ratio of external debt to GDP	1973	1975	1980	Increase in Debt 1973 = 100
All non oil developing countries	13.7	15.0	19.2	366
Net oil exporters	14.6	18.4	29.4	523
Net oil importers	13.5	14.2	17.3	335
Major exporters of manufactures	11.2	11.7	13.6	305
Low income countries	20.8	21.1	25.2	348
Other oil importers	16.8	17.7	23.1	384
Debt service ratio [2]				
All non oil ldcs	8.9	8.8	11.1	
Net oil exporters	17.2	13.9	21.0	
Major exporters of manufactures	7.7	8.0	8.2	
Low income countries	9.0	11.4	15.4	
Other oil importers	5.0	4.0	6.0	

Source : IMF WEO March 1980

1 Public and publicly guaranteed long term external debt

2 Percentage of export earnings given over to debt interest and repayments.

TABLE 6 : INVESTMENT AND SAVINGS RATES : 1980
(percentage of GDP)

	Gross domestic Investment	Gross domestic saving	Resource Gap
Low income countries	21.2	18.7	2.5
Africa	6.3	9.1	7.2
Asia	22.0	20.2	1.8
Middle income countries	25.3	23.2	2.1
All developing countries	24.6	22.4	2.2

Source : World Development Report 1980

TABLE 7: NON-OIL DEVELOPING COUNTRIES: CURRENT ACCOUNT BALANCES OF SELECTED GROUPS AS PER CENT OF GDP

	(A) All Non-Oil LDC s	(B) Low-income Countries	(C) Exporters of Manufactures	(D) Other Net Importers of Oil*	(E) Net Exporters of Oil
1972	-2.2	-6.1	-1.0	-2.7	-3.1
1973	-2.0	-6.5	-1.3	-1.2	-2.9
1974	-5.2	-10.6	-5.0	-4.0	-4.4
1975	-6.0	-9.1	-4.8	-6.6	-7.1
1976	-3.8	-6.6	-2.4	-4.9	-5.2
1977	-3.0	-5.3	-1.1	-5.7	-4.3
1978	-3.2	-6.8	-1.4	-5.9	-4.1
1979	-4.1	-6.6	-2.8	-6.4	-3.9
1980	-4.7	-7.2	-3.4	-7.5	-2.5

Sources: National and Statistical publications and staff estimates and projections.

* That is, column (A) minus columns (B) and (C).

TABLE 8

TOTAL NET FLOW OF RESOURCES FROM MAJOR COUNTRIES TO DEVELOPING COUNTRIES AND MULTILATERAL AGENCIES

1. 1978 (amounts, and as percentage of GNP)

	Official Flows		Private Flows		Total Flows	
	$ ~~£m~~	% GNP	~~£m~~ $	% GNP	~~£m~~ $	% GNP
UK	1402	0.46	8712	2.83	10114	3.29
France	2617	0.55	4741	1.01	7358	1.56
Italy	160	0.06	2603	1.11	2763	1.17
Germany	2219	0.35	4708	0.74	6927	1.09
Canada	1058	0.52	686	0.34	1744	0.86
Japan	1956	0.20	6317	0.64	8273	0.84
US	5276	0.25	8267	0.39	13543	0.64

2. 1978 compared with 1970 (as percentage of GNP)

	Official Flows		Private Flows		Total Flows	
	1970	1978	1970	1978	1970	1978
UK	0.37	0.46	0.64	2.83	1.01	3.29
France	0.68	0.55	0.57	1.01	1.24	1.56
Italy	0.19	0.06	0.54	1.11	0.73	1.17
Germany	0.39	0.35	0.40	0.74	0.79	1.09
Canada	0.49	0.52	0.28	0.34	0.77	0.86
Japan	0.58	0.20	0.34	0.64	0.92	0.84
US	0.32	0.25	0.31	0.39	0.63	0.64

Source: OECD: Development Co-operation, 1979 Review.

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Secretary of State for Industry

Overseas Aid

13 October 1980

Michael

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
London SW1

Dear Geoffrey,

You recently sent me a copy of your letter of 2 September to Peter Carrington. I am writing to say that I agree with your analysis and that I am very much in sympathy with the policy stance you have proposed in paragraphs 17 - 23, although it will clearly require rather careful handling internationally.

2 I am sending copies of this letter to the Prime Minister, other members of OD, and to Sir Robert Armstrong.

Yours,

Keith

Overseas Aid 2

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Prime Minister

MAP 19/IX

FCS/80/146

CHANCELLOR OF THE EXCHEQUER

Development Policy

1. You wrote to me on 2 September enclosing a paper on development policy as a possible basis for the line to be taken by British representatives at forthcoming international meetings.

2. I have now had a chance to look at your paper and although I agree with its analysis, I would not draw quite the same conclusions. I believe that we can evolve a line which would be consistent with our existing policy on aid, would take account of the facts set out in your paper, and would still enable us to take a reasonably positive stance in international discussions.

3. Obviously we need to discuss the question together with other interested Ministers. May I suggest that when you return from Washington we arrange a meeting rather on the same basis as the one held by Ian Gilmour on the aid framework? I would in the meantime circulate a note setting out our own thoughts on this important subject.

4. I am sending copies of this minute to the Prime Minister, other Members of OD, and to Sir Robert Armstrong.

C

(CARRINGTON)

Foreign and Commonwealth Office
19 September 1980

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Overseas Aid

(2)

Prime Minister

8/9

Foreign and Commonwealth Office
London SW1

8 September 1980

Dear Geoffrey,

Thank you for your letter of 2 September to Peter Carrington about Development Policy, enclosing a paper which you have had prepared on the subject. We shall be studying your paper in detai and Peter Carrington will of course wish to see it on his return before sending you fuller comments.

I have read the paper with great interest. It raised a numbe of major issues, including the role of private flows and OPEC finan which we shall need to consider together very carefully. I agree that it is important to make the facts about development better known. But obviously the first step is to make sure that we agree upon what these facts are.

Leaving aside questions of substance, however, there is an important question of how we handle this subject. As I am sure you recognise, for the United Kingdom openly to adopt the line you advocate for example in relation to the 0.7% aid target, the conduc of the North/South dialogue and future replenishments of the World Bank or IDA, would put us in the position of being clearly identifi as the industrialised country with the least sympathy for the pligh of the Third World. I know we agree that this would be highly damaging to our political and commercial interests; and I doubt

/whether

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
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whether, at the end of the day, such a position would secure the necessary support of other developed countries to gain the objective which you have in mind.

Once we have agreed on the facts therefore, we shall face the very difficult question of how to play the hand tactically. Meanwhile, I should have thought that for the meetings immediately in prospect in Bermuda and Washington we should rest on the line set out in the White Paper on the Brandt Report, which was the subject of thorough consultation between us earlier in the summer. That would give us time to consider your ideas properly in preparation for the international discussions next year.

I am copying this letter to the Prime Minister, to other members of OD, and to Sir Robert Armstrong.

Yours ever

Ian

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Overseas Aid

MR. WRIGHT

Overseas Development

The Prime Minister has seen Mr. Wade-Gery's minute to me of 4 September on this subject.

She is content with the arrangements proposed in paragraph 4 of that minute.

M. O'D. B. ALEXANDER

8 September 1980

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Prime Minister

I suspect that Mr Wade-Gery may slightly exaggerate the likely degree of controversy. The FCO will be anxious about the presentation but will not, I think, take issue with the substance of the Chancellor's case.

2. Agree procedure in para 4? [initials] 5/9

(1)

Ref: B06013

~~MR ALEXANDER~~

Yes me

Overseas Development

In his letter to the Foreign Secretary of 2nd September the Chancellor of the Exchequer suggests a revision of the Government's "policy stance" on overseas development. He also proposes that the new stance should be reflected in our attitude at the Commonwealth Finance Ministers meeting, which he will be attending in Bermuda on 24th/25th September; at the IMF meeting, which he will be attending in Washington from 28th September to 2nd October; and at meetings of the Personal Representatives charged with follow up work from the Venice Summit, for the first of which Sir Robert Armstrong will be going to Washington on 25th/26th September.

2. Sir Geoffrey Howe's proposals are likely to generate controversy. They reflect a number of views which Ministers have previously expressed in collective discussion. But they run counter (as he himself acknowledges) to the conventional wisdom about development aid, and may therefore be unwelcome to officials in the ODA. The main FCO will be more worried about the international odium which these unorthodox views may attract; as the Chancellor says, those who agree with them tend to do so only in private. In Lord Carrington's absence until mid September, the Lord Privy Seal has decided to reply fairly quickly. He will probably take issue with a number of the Chancellor's points.

3. On 10th September the Lord Privy Seal is chairing a meeting of Ministers to consider differences of view which were expressed in early August about the Aid Framework (particularly by Mr Nott). This is the meeting which the Prime Minister suggested at the time (Mr Pattison's letter to Mr Lever of 11th August). Clearly that meeting will now also need to address itself to Sir Geoffrey Howe's letter. There is no need for the Prime Minister to express any views on substance before that meeting. But it may help if she indicates how, procedurally, she wishes matters to be handled.

4. If the Prime Minister agrees, therefore, I recommend that you should await Sir Ian Gilmour's reply to Sir Geoffrey Howe (provided it appears no later than 8th September); and that thereafter you should write to his

(In fact it may not be available till 9 Sept.)

private secretary and others concerned to suggest the following procedure. Sir Ian Gilmour's meeting on 10th September, and any further meeting(s) which may be necessary to cover the ground and also to bring in Lord Carrington on his return, should consider both the controversy about aid distribution (ie the Framework) and whatever controversy there may be about aid policy (ie the Howe doctrine). If agreement on both subjects can be reached at these meetings, it should be reported to the Prime Minister, for approval in time for the series of international meetings beginning on 24th September. If it cannot, a meeting of OD on the subject should be held before that deadline. The report to the Prime Minister, and the OD meeting if one proves necessary, should also take into account the results of the current UN Special Session to launch the "Global Negotiations" between North and South, which was the subject of OD's last meeting on 4th August (OD(80) 19th Meeting).

4th September 1980

R L WADE-GERY