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Britain: The Pound Sterling is still a problem

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COMMENTS

DAC Conference

General Uneasiness

The sixth Annual Conference of the Development Aid Committee (DAC) in July has pointed up—yet again—the numerous difficulties with which development aid has more and more to contend. Discontent about development aid is becoming increasingly widespread in donor countries. Encouraged by the intentions of the recipients, the lenders have anticipated that their aid would enable developing countries to proceed with economic development so that in a short time they would require no further aid. They have been forced to realise, however, that this anticipated economic growth is really a slow process and that not infrequently aid funds have been completely squandered. Additionally, recipient countries have accused donor countries of a tendency towards neo-colonialism. The result of such an attitude is an appreciable decline in private sector assistance to developing countries. Since—additionally—many donor countries have recently had to cope with economic difficulties at home, it is becoming increasingly difficult for them to make available (much less improve upon) the 1 per cent of the GNP which is the rate agreed upon by the DAC for development aid.

The uneasiness about development aid—whatever the grounds for it—is significant on both sides. The DAC Conference has shown that the optimum type of co-operation between donor and recipient countries has not yet been found. Donor countries need to find a way of making available more aid and in more useful ways. Recipient countries will be forced to discard ideological reservations and to make more efficient use inside their countries of the aid they are given. The way in which debt servicing is settled may be decisive for the success or failure of development aid.

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South Vietnam

How to Avoid Chaos

America has already provided \$ 715 million to stabilise the South Vietnamese economy. But—apart from a boom in Saigon, the capital, which has partially concealed the economic difficulties of the country—any success has been extremely slight.

Agriculture, which has hitherto employed 70-80 per cent of the work force, has been the sector worst affected by the fighting. The fall in production is most evident

in the staple food, rice. Before the war, 2 million tons of rice were exported, whereas Vietnam now has to import 1 million tons. Simultaneously, and in spite of certain show projects accompanied by a vast expenditure on propaganda, industrialisation—because of growing insecurity and the destruction of the transport system—has made practically no headway. Last year, only 3.8 per cent of imports were covered by exports. Increased expenditure on armaments create an additional problem for the financial position of the State. During the second Five Year Plan, numerous planned projects could not be started. The budgetary deficit of \$ 630 million carried over from 1965 was even surpassed the year after and will probably continue to rise. The galloping inflation, which is being increased still by America's constantly high level of expenditure in Vietnam, could be inhibited by devaluing the piastre and an almost total liberalisation of imports. But the cost of living is still rising by about 3 per cent per month.

It will scarcely be possible to undertake a reorganisation of Vietnam's finances or the planned expansion of production as long as the fighting continues. The Ky Government can only try to avoid a complete breakdown of the economy. But it is essential that the Government should make definite plans—immediately—for the day when the fighting will stop and the United States may possibly reduce its commitment.

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Britain

The Pound Sterling is Still a Problem

The conflict in the Middle East has once again pointed up the vulnerability of the Pound Sterling as an international reserve and vehicle currency. The reason for this vulnerability is that foreign-owned short-term Sterling deposits of around £ 4,300 million are covered by gold and currency reserves at the Bank of England of only £ 1,000 million. Although British foreign holdings still exceed the country's obligations by an estimated £ 2,000 million, the Bank of England—as the very recent past has shown—can easily fall into liquidity difficulties if confidence in Sterling wanes due to unfavourable developments in the British balance of payments and large foreign deposits are withdrawn.

It is essential to aim at an enduring improvement in the balance of payments—particularly in the trade balance. Measures taken hitherto have not been particularly successful. It is therefore scarcely surprising that there has recently been widespread discussion again about devaluing the Pound. How far