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Statement by the Hon. **GORDON BROWN**
Governor of the Fund and Alternate Governor of the Bank for the
UNITED KINGDOM,
at the Joint Annual Discussion

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GOVERNOR OF THE FUND FOR THE UNITED KINGDOM
AT THE JOINT ANNUAL DISCUSSION**

Introduction

1. Mr Chairman, these are the first Annual Meetings that I have attended as Chancellor of the new UK Government, and as UK Governor of the Fund.
2. I would like to start by thanking the staff of the Hong Kong authorities, the IMF and World Bank for the excellent organisation of these meetings--and I would also like to pass on the thanks of Clare Short, UK Governor of the World Bank.
3. It is particularly appropriate that the world's two major international financial institutions should be meeting here in Hong Kong, one of the world's largest trading economies and leading financial centres in the midst of the fastest growing and most dynamic region of the world. And to be doing so in 1997, which is such an important year for Hong Kong.

The World Economy

4. The challenge facing us all is to have sustainable growth and employment for the long term, free of instability.
5. We now understand that our shared objectives of high and stable levels of growth and employment-- the same bold objectives as those of our predecessors 50 years ago--have to be achieved in a quite different world of highly mobile capital and much greater trade flows.
6. It is a world in which long-term stability in monetary and fiscal policies--low inflation and sound finances--is a pre-condition for high levels of growth and employment. And it is an international economy where countries will raise investment funds only by pursuing prudent policies that enjoy international credibility.
7. For some countries, high and unsustainable levels of debt make it very difficult for them to participate in this new global economy.
8. Poverty and unsustainable debts in poor countries affront us all and demand action from the richest countries to take account of the needs of the poorest. I

believe it is time to give added impetus to the HIPC initiative so that all eligible countries which meet the tough conditions will have embarked on the process of debt relief by the new millennium. This proposal is now firmly on the international agenda. I am pleased that we are all committed to seeking further progress in the HIPC initiative.

9. As this programme of debt relief is implemented, and barriers to trade and capital flows continue to be dismantled, more and more countries will find themselves able to benefit from the growth and jobs that inflows of new investment bring. But as they do so, they will find that it is more important than ever to pursue sound policies that promote stability and growth.

10. We now live in a world where instability anywhere can rapidly become a threat to stability everywhere.

11. That is why this week we have considered important initiatives to bring greater stability to the international economy. The turbulence in the South-East Asian economy has brought to our attention this week a truth that applies to us all--that, in addition to the pursuit of prudent policies, nothing is more important for maintaining stability than effective decision-making based on openness, transparency and accountability.

12. More openness and transparency in decision-making will create a flow of information and a consistency in rules and procedures that can help avoid the kind of market turbulence we have seen. It adds to public understanding of difficult economic decisions and deters undue interference by sectional interests--and, at its most extreme, corruption.

13. That is why I am pleased that the IMF will now consider a code of good practice which can promote not just a more effective flow of financial and economic information, but also agreed rules and procedures that promote openness and consistency in economic decision-making and reporting.

Opening Up The UK Economic Policy

14. Openness in economic policy-making builds confidence and credibility. But, by bringing government closer to the people, the resulting dialogue and debate helps to build a sense of common economic purpose--something that has been lacking in Britain for decades.

15. That is why a commitment to greater openness in decision-making has been at the heart of the reforms that the new British government has introduced over the past four months:

- a new monetary framework that is more transparent, open and accountable;
- and a new and more open fiscal framework with a credible deficit reduction plan.

Monetary Stability

16. During the last two decades UK governments have adopted and then abandoned a succession of short-lived monetary policy targets--sterling M3, M4, M0, the ERM. And, far from delivering monetary stability, Britain has suffered the most volatile inflation record of any G7 country in the last 10 years.

17. I want the British economy to enjoy the far greater underlying strength that comes from a base of high levels of growth and employment alongside low and stable inflation.

18. That is why almost my first act as Chancellor was to establish a wholly new framework for monetary stability in the UK.

19. Our new framework gives operational independence to the Bank of England for setting interest rates to meet the government's inflation target, while enhancing accountability and ensuring policy is conducted in an open way.

20. By introducing more rigorous, precise and open procedures for monitoring inflation performance, including the open letter system which requires the Bank to write to the Chancellor with an explanation if inflation moves significantly away from its target, I believe we now have one of the most open monetary policies in the world.

21. Progress has already been made in building our anti-inflation credibility. Long-term interest rates and inflation expectations have fallen.

22. At the Interim Committee I announced a further step in the direction of openness in economic policy making--the decision to publish a quarterly report on our foreign exchange reserves, including our outstanding forward position, and a full set of annual accounts. So we are literally opening the books.

Fiscal Stability

23. As with our approach to monetary policy, so in fiscal policy we have established clear rules, a new discipline, openness, and accountability.

24. We have set tough rules for fiscal policy:

- first, the golden rule--that, on average over the economic cycle, the government will borrow only to invest;
- second that, as a proportion of national income, public debt will be held at a prudent and stable level on average over the economic cycle.

25. Our tough approach to public borrowing, embodied in a five-year deficit reduction plan, is being underpinned by a comprehensive review of the way each government department spends its money.

26. We are also drawing up the first register of all public sector assets in our country, to ensure the British people get the very best out of the nation's assets.

27. Together, these tough fiscal rules, this deficit reduction plan and this root and branch review of public spending, will ensure a historic break from the short-termism and expediency of the past.

28. Our fiscal policy will be all the more credible for being open and accountable.

29. Immediately on coming into office, I invited an independent body--the National Audit Office--to review the assumptions and conventions behind our budget arithmetic. They will have a continuing role in future budgets.

30. And in November, I will publish a consultative paper spelling out the state of the economy and progress made towards the government's objectives--to provide the basis of the next budget in the Spring.

31. This "green" or provisional budget--another example of openness in economic decision-making--is designed to stimulate public debate and build consensus around the way forward for the British economy.

UK Economic Prospects

32. The task everywhere is to secure high and sustainable levels of growth and employment. In particular, I want to move the British economy from decades of

stop-go economic instability to a new era of high and stable growth and employment with low inflation. Our challenge, therefore, is to steer a long-term course towards sustainable growth.

33. That will not be easy because we inherited an economy that was not only in danger of over-heating but where tackling fundamental long-term challenges--under-investment, education and skills and welfare reform--had been neglected for too long.

34. We will never allow a repeat of the boom-bust cycles of the past in which, every time the British economy expanded, capacity constraints, under-investment and skill shortages triggered inflationary pressures.

35. Already we have made significant progress.

36. We have quickly established our new framework for monetary stability combined, of course, with necessary rises in interest rates to curb inflationary pressures. It is a new system that is generally recognized to be working well.

37. Second, and I believe just as significant, is the new long-term stability we have determined for the public finances. We published a deficit reduction plan for five years in our July budget, welcomed by the IMF as representing a "significant fiscal tightening". This means, from a PSBR of 7 per cent of GDP four years ago, we are now set to achieve a PSBR of 1¼ per cent in the current financial year and ½ per cent in the next.

38. There is no room for complacency regarding our public finances. We will maintain strict discipline in public spending and I have insisted that, across the board, public sector pay settlements must be guided by firmness and fairness.

39. Third, we have taken measures to tackle long-term under-investment in both capacity and skills, including a cut in corporation tax to its lowest ever level. But we still have much to do in structural reform to encourage a more dynamic economy through increased competition and through reforms in welfare and employment policy. We are committed to a wholesale modernization of the welfare state, combining new opportunities for the unemployed with new responsibilities.

40. Of course, I have been concerned that, as a result of both international and domestic forces, our exchange rate has affected the prospects for British industry. But what industry fears most of all is a return to the stop-go instability of the past and the best prospect for industrial investment is to get the economy back on track to sustainable growth with low inflation.

41. In past economic cycles, the British economy has swung from overheating to recession, apparently unable to steer a steady course of sustained growth between these extremes. Our challenge is to deliver higher levels of sustainable growth without taking risks with inflation.

42. We will have to be tough in enforcing discipline on spending over the next year, remain vigilant in monetary policy making, and act speedily to achieve welfare state and employment reform. I will not disguise the problems that we inherited, in particular the strength of consumer demand and the threat of inflation. But with the tough action we have taken to cut the deficit and reform the Bank of England, I am now more optimistic that we are on course to get the economy back on track next year.

Stability In Our Relations In Europe

43. To gain the confidence of long-term investors required us also to demonstrate stability in our trading relationships. The new UK government has also given our categoric commitment to a future in the European union--with whom half our trade is done--and we have engaged in a more constructive dialogue with our European partners about the challenges that we all face--including the challenge of creating more jobs.

44. For Britain it is vital that we have stability in our relations with Europe. Europe is where we are, where we trade, and where we make our living. 60 per cent of our trade and 3.5 million jobs depend upon the single market.

45. This government has put our relationship with Europe beyond any doubt: Europe is where we are and where we will stay.

46. We are committed to a constructive partnership with our European neighbours. We will play our full part in equipping Europe for the challenges that lie ahead.

47. This government has begun a debate about Emu in the UK. And we are helping British businesses to prepare for the practical changes that will be necessary to accommodate a single currency whether or not the United Kingdom joins.

48. We are also helping Europe face another major challenge--the challenge of creating job opportunities, providing work incentives and improving the skills of our people.

49. It is a tragedy that there are 18 million unemployed people in Europe--half of them have been unemployed for more than 1 year. Over the last 10 years 6 million jobs have been created in Europe compared to 46 million in America.

50. We in Europe must share our experience and expertise in reforming our welfare systems and promoting long-term flexibility and adaptability in our markets, especially our labour markets. And we must tackle obstacles to dynamism.

51. We need a new approach in Europe to promote employability. A workforce that is more skilled and better able to adapt. And a new welfare state where attention is given to the creation of jobs, making work pay, and the skills ladder.

Conclusion--Europe In The Global Economy

52. Let me end where I began by emphasising the importance of our dependence upon each other and the importance of international cooperation to maintain an open economy.

53. At a time when Europe is engaged in important reforms to prepare for monetary union and to reform our markets, it is crucial that we do not become insular but remain open to the world and outward looking. This is a further reason why it is good for me and my European colleagues to be meeting this year in Hong Kong.

54. I believe I speak for all the European Finance Ministers here today when I say Europe is firmly committed to open trade and greater international cooperation.

55. This internationalism, which the IMF and World Bank represent, is a force for good which we are determined to uphold and which we believe, working together, we can enhance. For at these meetings we have together discussed tasks and challenges which if we do not all address together will not be properly resolved.

56. Regional concerns must never replace international commitments. Urgent reforms close to home must not breed insularity. For I believe that the agenda of structural economic reform upon which Europe is embarked represents not a retreat from the world but a means by which we play a fuller part in it.