

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT)

C(67) 120

COPY NO. 19

4th July, 1967

CABINET

AID AND THE BALANCE OF PAYMENTS

Note by the Secretary of the Cabinet

By direction of the Prime Minister I circulate as background information for the Cabinet in relation to C(67) 117 the attached memorandum by the Minister of Overseas Development which has been considered by the Defence and Overseas Policy Committee.

(Signed) BURKE TREND

Cabinet Office, S. W. 1.

4th July, 1967

AID AND THE BALANCE OF PAYMENTSMemorandum by the Minister of Overseas Development

The relation between Government overseas expenditure and the balance of payments has been raised in the context of defence, and my colleagues may find it convenient to have my comments on this matter in relation to expenditure under the aid programme.

2. Much care has been taken in the design of the aid programme to minimise the burden which it places on the balance of payments. This is in particular the object of tying aid to the purchase by the recipient of United Kingdom exports, but there are also other features of the programme which have the same broad economic effect. Detailed studies of these effects have been carried out by my officials in consultation with other Departments. I do not propose to burden my colleagues with these but the conclusion which has been reached, is that £100 of additional aid will under present provisions generate a return flow of payments for additional exports of goods and services of about £65. Conversely, a reduction of £100 in aid expenditure would bring a saving of only £35 on the balance of payments. For practical purposes this amounts to saying that the direct balance of payments cost of the aid programme is about 35% of the gross expenditure.

3. In the longer term other factors come into play which would further reduce the burden. These factors have also been carefully studied. A substantial part of the aid programme consists of loans which generate a flow of repayments, and a proportion of which also generate interest. In 1966/67 we received £61 million by way of interest and repayments of aid loans made in previous years.

/4.

4. Further, it has to be remembered that the United Kingdom aid programme is part of an international system of aid giving whose parts to some extent hang together in a mutual relation. By giving aid on a certain scale we have some impact on the amount of aid given by the United States and other donors including the international agencies. There is little doubt that the operation of this system as a whole is advantageous to the United Kingdom balance of payments. This is because the United Kingdom has a substantially bigger share in the import trade of the less developed countries collectively than she has in the world aid flow, and in spite of the widespread tying of aid the United Kingdom exports generated by world aid probably exceed United Kingdom expenditure on aid. This is particularly true of the International Development Association of whose funds we provide 17%, while over 20% of the resulting export orders come to this country.

5. Finally, the effect of aid in strengthening the economies of the beneficiary countries has a certain feed-back to the United Kingdom balance of payments through the improvement of supplying industries, the creation of situations in which development take-offs may occur so that world markets are augmented, and through the reduction of causes of tension in the world. Such consequences are inherently hard to measure and take time to be realised but this does not mean that they are negligible.

6. Taking all these considerations together, it does not seem unreasonable to conclude that the balance of payments impact of the aid programme is not much out of line with that of public expenditure generally.

A.G.B.

Ministry of Overseas Development,
London, S.W.1.

28th June, 1967

401

END