



BRITISH INFORMATION SERVICES

NOTES FOR SPEECH BY

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TO THE CANADIAN CLUB, TORONTO,

MONDAY 7 FEBRUARY 1977.

Check against delivery

BRITAIN, TODAY AND TOMORROW

I feel greatly honoured to be asked to address the Canadian Club of Toronto again this year, almost exactly a year after I last enjoyed your hospitality. The year in between has not been the easiest or most comfortable one, either in Britain or in Canada.

I saw one of those joke notices on the wall of someone's office some time ago which read "If you can keep your head amidst all this confusion, you clearly don't understand the problem". There can be no doubt that we are passing through a confused and testing period of history. None of us can forecast precisely what is going to emerge from it. But it does seem to me important that one should keep one's head amidst all the confusion: and that this indeed is a necessary prerequisite to trying to understand the problem.

I have to declare my own bias. I am an historian by training, and an optimist by nature. I tend, therefore, to try to see things as part of an historical

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process and in as long a perspective as my imagination will permit. And I try to resist the temptation - and I think it is a rather seductive temptation these days - to take an apocalyptic view of current problems, if only because, if you look over the past, people have been taking an apocalyptic view of historical events from as far back as one can see, without the world, in fact, coming to an end. "The lights are going out all over Europe" said Lord Grey of Falloden in 1914: and they went out, for four years. They went out again, equally tragically, 25 years later. But they are burning very brightly today, in a very much better Europe.

Western Europe has succeeded in burying the hatchet of a thousand years of strife and has historically begun the task of building itself into a unified community. I saw in the printed notice for this meeting a reference to the 'D' Day landings. How many of us who landed on that Normandy beach would have believed, then, that 33 years later Europe would have reached the pitch of association and common endeavour that the EEC has reached today? I think Thomas Macauley, the historian, had it about right a hundred years ago when he wrote "Those who compare the lot on which their age has fallen with a Golden Age which exists only in their imagination may talk of degeneracy and decay. But no one who is correctly informed as to the past will be disposed to take a morose or desponding view of the present".

My purpose in this rather philosophical beginning is to suggest that it is not running away from the urgent problems of the day to try to see them in an historical perspective or as part of great historical processes, insofar as those living through such processes can discern them at the time. It is a necessity, if we are to keep our heads in a confusing age.

I think it is this sense of history which makes me so concerned that, amidst all the confusion, people should keep their heads about Britain, and not accept too blindly some of the instant comment and judgement which is so freely available on all sides.

So, I want to give you something of a progress report. And I want to say something not only about Britain's current problems, but about her fundamental strength: not only about our fears, but about our hopes: not only about our disappointments, but about our prospects. And I want first to say something about our history.

Economically, we are in Britain working our way through a process of change which began with this century. The technological lead which the Industrial Revolution gave Britain was already disappearing in the last quarter of the 19th century. By 1900 German steel production had already outstripped that of Britain, and the vast industrial potential of the United States began to emerge as the century unrolled. Our own economy was sustained through the consequent process of adjustment by our vast investments abroad, built up over more than a century. But two world wars ended all that. Our overseas assets had to be sold off to meet their cost. By the end of World War II, thanks to wartime borrowings, and the accumulation of sterling balances in countries we had defended or from whom we had bought essential war supplies, we were heavily in debt on capital account. We had lost - at old time prices - £1,100 million of assets and investments. That was not all. Under the Lend Lease arrangements we handed over the rights in a generation of unprecedentedly brilliant achievements by British scientists - in jet aircraft, radar and other electronic development, in nuclear science and anti-biotics - without charge or obligation. As someone pertinently asked recently, "What might our investment income have been today, and for 30 years past, from royalties on the world's jet fleet, on radar and associated developments, on nuclear know-how, and on a generation of anti-biotics?"

I recall this post-war situation to you not as an excuse, or with regret or complaint; but simply as a fact, and as an indication of the burden we have carried on our back since those days. What we had lost or mortgaged was the cushion of resources, the solid economic base which would have made it easier to cope with the cyclical economic fluctuations of the years that followed. There was a period

in the post-war years when we were managing the finances of the whole sterling area on dollar reserves less than those of the Ford Foundation. To the problems of economic adjustment there were added the problems of political and psychological readjustment - and we have made those readjustments - as we responded to the mid-century imperatives of nationalism with a programme of peaceful and constructive decolonisation. I do not have to tell you what the oil crisis of 1973, and the subsequent quintupling of the price of oil, added to our burdens, as it did to those of the rest of the world, at a time when the whole world was entering on a new kind of economic recession, in which we all found to our dismay that it was possible to have inflation and unemployment at one and the same time.

The reason that I have inflicted this piece of post-war history on you is that I believe that in Britain today we are at last in sight, if all goes well, of shaking off that post-war burden we have been carrying, and of moving into a quite new period of our history. This may seem a bold assertion when, as is patent to every newspaper-reader or radio-listener, we are still faced with formidable problems of all kinds. But this I think is the real significance of North Sea oil. None of us are fooling ourselves that North Sea oil is the answer to all our problems. But it does look as though, within the next five years, North Sea oil is going to restore to us that foundation for our economic efforts, the replacement for those basic assets and investments that we willingly gave up thirty-odd years ago, but without which the going has been difficult indeed. The oil story is quite remarkable, with performance steadily improving on forecast. BP's Forties field, for example, is now approaching 400,000 barrels a day - 6 months ahead of their original production schedule. BP have spent \$1.4 billion developing this field and expect to recover the whole of their capital expenditure by the end of next year. We expect total production from the North Sea to be pretty close to one million barrels a day by the end of this year - half our total consumption, and with a net benefit to our balance of payments of something over \$6 billion. It now seems more than likely that we shall reach total self-sufficiency in 1979 rather than in 1980.

The net benefit to our balance of payments in 1980 - that is, the export or import saving value, less inputs of goods and services, interest and dividend payments - is presently estimated at some \$16 billion.

As I have said, none of this solves our problems for us. But I do not think it an unreasonable proposition to put before you that it offers us the economic base we have been lacking, and the opportunity and the time to complete our industrial re-investment and regeneration. That I believe is the true and profound significance of North Sea oil, and I think it is right to try to see it in the historical perspective in which I have tried to present it.

But I must come back from Britain tomorrow to Britain today. When I spoke here a year ago I said - and I quote the words I used - 'we . . . have a hard year ahead of us'. And it has been a hard year, in which the progress I was looking for when I spoke last year received a severe setback in the summer and fall. By the summer we had halved our rate of inflation, year on year. But we then had the severest drought for 250 years, with its inescapable effect on food prices. And this was followed by the slide in sterling in the fall which greatly increased the cost of our imports. Effectively these halted the decline in our rate of inflation, and created a situation of some anxiety. I am not going to select from any of the varied analyses of the factors that precipitated that situation. Indeed, I am sometimes reminded of one of the Blondie cartoons a little while ago in which Blondie said to Dagwood "What makes the Stock Market go up and down?". Dagwood said "It's simple . . . inflationary pressures and fiscal instability, combined with international imbalance and political tensions". To which Blondie replied "As long as you don't know, dear, why don't you just say so".

Whatever the causes, we had a difficult situation on our hands, and a lot of painful decisions were called for - and were taken. Government programmes were cut severely. For the first time in this decade, public expenditure will be lower, in real terms, next year and the year after that. But the measures we took, in one

of those strange moments of history when good emerges from what appears to be a wholly adverse situation, have enabled us to construct what may prove to be the bridge we needed - the stepping-stone, if you like - into the next and more secure phase of our economic recovery. That bridge took the form, as you know, of a substantial standby credit from the IMF, which in turn enabled us to negotiate what has been called the 'safety-net' for the official sterling balances. And these arrangements were reinforced by a further medium-term credit arranged through the Bank of International Settlements. You will have seen for yourselves the dramatic turn-round which has followed. Sterling is showing a renewed strength and a new stability: order has been restored in our foreign exchange markets: interest rates are down: we have regained a proper control over our currency: and our currency reserves rose last month by \$3,067 million, the biggest increase ever in a single month. 1977 has started well.

1976 wasn't altogether without entries on the credit side of the ledger. We maintained our trading surplus on non-oil account, and it is now only a question of time before we are in steady overall balance of payments surplus, as North Sea oil reduces our adverse balance on oil account. The Treasury are cautious, and won't predict break-even before next year: but both The Economist and the National Institute of Economic and Social Research have us moving into surplus this year - a surplus we expect to increase ten-fold by the mid-eighties. We had a good year in industrial relations. In 1975 we halved the number of days lost through strikes compared with 1974: last year we again halved the 1975 figure. We stand very respectably in the world league table in this field. In 1976 we increased our export performance by some 30 percent in value and $8\frac{1}{2}$ percent in volume, whereas our imports went up by only 28 percent in value and 7 percent in volume.

There were some notable achievements in particular industries. British chemical sales abroad, for example, reached a record of £3,050 million, and for the first time the industry widened the surplus of exports over imports by more than £1,000

million sterling. Even our much-maligned motor industry earned a record £3,277 million in exports. The new Rover 3500 has just been named the European Car of the Year. And I can't resist mentioning that a Cambridge firm is just marketing the world's first pocket television set - 6" x 4½" x 1½", and capable of receiving on any television system in existence.

My prediction for the year ahead is precisely what it was a year ago - another hard year, before the tide is really running strongly for us. Like Canada and the rest of the Western World we face intractable problems of inflation and unemployment. And we have our own special problems of promoting industrial regeneration and improving our productivity. We cannot look for any significant reduction in inflation until the effects of the high import prices during the devaluation of sterling last fall work their way through the economy, which will take another two or three quarters. Thereafter the prospects look brighter, with the reverse benefits of a stronger and more stable sterling rate flowing through, lower interest rates, and the beneficial effects of our move towards and into a sustained and growing balance of payments surplus. It is not an unreasonable hope that these factors, if we hold steady on our domestic course - and provided there is the increase we all look for in world economic activity - will help us get our inflation rate down to that of our competitors in the course of 1978. In many ways the chief effect of recent events has been to clear the decks for a concentrated effort in the next 12 months on the industrial front. We now need to build on restored financial confidence a full-scale recovery of industrial confidence. The monetary conditions are probably more favourable than for many years and our industrial relations are the best for a decade. So it is to the problems of industry - investment, productivity, incentives - that Government, management and unions are now, severally and collectively, bending their endeavours. Talks have begun on a third year's extension of the voluntary agreement with the Unions on pay restraint, which has held so remarkably now for two years, without a single

union breaking the agreed pay limits. And on incentives I noticed with some interest that the Chancellor of the Exchequer, speaking to overseas bankers a week ago, said that he hoped circumstances would permit him to reduce the burden of income tax in his next budget, particularly at the lower and the higher ends of the scale. There's a great deal to do, but it is being tackled. Only last week the National Economic Development Council, under whose aegis combined teams from industry, unions and Government have been making intensive studies of the key sectors of industry, met under the Prime Minister's chairmanship to receive preliminary reports from these 39 sectoral working parties. The reports I have so far seen of this meeting suggest that real progress is being made.

Everything I've said so far has really been in terms of quantity. But I don't think I can talk about Britain, today and tomorrow, without saying something about quality. A country is more than its statistics: and people have more to do with progress than computer models. I have recently come back from a period of home leave, and with some quite strong impressions. Perhaps the first of these was the sense that Britain is today more realistic about her problems than at any time I can remember. I think Mr Callaghan set the tone at the outset of his Prime Minister-ship when, in his first broadcast, he told the country flatly and bluntly that we had been living beyond our means, and that we could no longer afford to. This message has been hammered home and I believe widely accepted. We are taking as a country, in these years of transition, a cut in our standard of living. We grumble mightily, but we are taking it - and it is having some interesting social consequences. People are travelling less - and are becoming more neighbourly. More people are gardening and growing more of their own vegetables. Sales of books are up, not down.

I was struck too with the visible evidence of the effectiveness of the grip being taken on our public expenditure. The Government last year introduced a system of specific cash limits on expenditure at all levels, and it was illuminating to be

in a county town - Oxford - where I was, and follow the debate raging in the local press over how the painful economies required of these cash limits should best be secured. It vividly illustrated Anthony Eden's old dictum, that everyone is in favour of general economy and particular expenditure.

More generally, it seemed to me that Britain in the world today, remained a country of remarkable social strengths, with an even-tempered and tolerant people, with institutions functioning well within a basically unchallenged constitutional framework - a country at peace with its own history, and with a genuinely open and democratic society. It did not seem to me a foundering country or, despite what the Ottawa papers occasionally tell me, a bankrupt one. I had a sense of great inherent riches of all kinds and a sense that Britain is perhaps reflecting more quickly and more clearly something of the growing mood common to most of the Western democracies in this last quarter of a turbulent century. It is a mood which challenges what it senses as a growing tendency towards centralisation and bureaucracy. There is a re-discovery and highlighting of regional culture, a suspicion of bigness and size, and an increasingly vocal demand for greater involvement and participation in specific parts of the decision-making process, particularly at the place of work. It is reinforced by the new strength of the consumer in relation to the producer, the new relationship of the shop-steward or worker with the manager. It is a mood to which some, used to a more rigid hierarchical system, find difficulty in adjusting. But it is not a passing mood or one that can be ignored. And in our own society, I believe it is a source of strength that all these challenges to previous assumptions and earlier structures are being debated and argued out with great vigour and passion - and often with a plentiful supply of advice from outside the country. As one of our Ministers remarked in a speech to the Mid-Atlantic Club in Washington last month "Whatever else may be wrong with Britain, we still possess sufficient confidence in our liberties and in our ability to face and overcome our problems, to give enormous publicity even to our most ill-informed and irrational critics".

And if we are looking for quality, how the Arts and the intellect flourish in contemporary Britain. It is exciting to see both the scale on which the arts - music, painting, sculpture - are being practiced by ordinary people everywhere; and the quality of the professional playwrights, actors, composers, and artists who have given Britain a position of international eminence in the Arts never before enjoyed in our history. The quality and sweep of the programmes offered on radio and television; the level of national debate, and in creative writing; all seemed to me evidence of a vigorous and lively people. I had the pleasure of going to our recently-opened National Theatre, which I saw described by an American correspondent recently as an ornament of Western civilisation. In Oxford I saw craftsmanship in stone and wood in the restoration of college buildings which one would have thought long passed from the face of the earth. We have cleaned up the atmosphere of London so that it now gets 24 percent additional winter sunshine; and we have so cleaned up the River Thames that it now boasts 91 varieties of fish.

Change? Yes - change, in plenty. But decay - not on your life.

Let me finish with a little anecdote. When we were in Oxford, we had a group of undergraduates to supper one evening, and I asked one of them (a girl, incidentally, who was at what had, until recently, been an exclusively men's college for several centuries) "What do you find the most exciting thing about being at Oxford at the present time?". "Oh", she said, "Just the glorious sense that nothing is impossible." My message to you today is - Hang on to that remark.