Former British premier Edward Heath, co-author of the famous Brandt Report on North-South relations, has long been advocating closer links between the West and developing countries. Here are some extracts from a fascinating article he has written for *The Financial Times*.

ADVOCATE OF A CHANGING WORLD

Almost every new departure in the history of ideas has evoked strong and sometimes violent opposition. This was as true of the abolition of slavery as it was of the invention of the electric light bulb; as true of the first piece of labour legislation as of the discovery of gravity.

Attitudes have not changed. The out-and-out opponents of a new structure of economic co-operation between the industrialised countries and the various groups of developing countries are characterised by a similar type of drunken paranoia. Their every intellectual sinew is strained to make reality conform to their prejudice; and every argument or fact which they otherwise know to be correct is subverted to the battle against change which they are so tenaciously waging.

This is the style of Samuel Brittan's vituperations against the Brandt Report (Economic Viewpoint — Conscience money: or aid instead of trade, *Financial Times*, July 2). He has fallen straight into the old trap laid by blind prejudice, which is to deploy truisms to which nobody could take exception in order to denigrate, explicitly or implicitly, the arguments to which he objects.

Mr Brittan goes on to deride the "fashionable argument" that the commercial banks are becoming overstretched in their lending to a number of non-oil developing countries. Since the deficits of these countries are "no higher on a properly inflation-adjusted basis than they were in 1975", his argument goes, this shows how foolish it is to worry about their creditworthiness.

This is a *non sequitur*. What matters is not the absolute size of a country's payments deficit but its ability to support and sustain it. And here the situation is not so rosy. For many developing countries, as a result of high oil prices and high interest rates, debt and even interest payments are now growing at a higher rate than their foreign exchange earnings.

In addition, it is a fact that expanding borrowing by the Third World within the international financial system is no longer producing an increase in net transfers to many developing countries. This has produced a situation where the debt of Brazil, for example, is around four times as great as its export earnings and almost one third as great as its entire GNP. It is sobering to remind ourselves that Poland, whose economy Western governments have recently had to save from collapse, has a national debt which is only one and a half times its export earnings and which amounts to less than one fifth of its GNP.

For some developing countries this situation is fundamentally unsustainable. It is being exacerbated by rising interest rates, and by protectionism in the North which further stifles growth in export earnings in the South. No wonder that many commercial bankers are becoming more nervous about lending to the Third World. For governments, the stark reality is that a default by a developing country could trigger a serious collapse in confidence by private lenders, which in turn would badly weaken the entire Western banking system. The almost inevitable result of this would be massive instability in the world's monetary arrangements.

It is now necessary for the international financial institutions — particularly the IMF and the World Bank — to play a greater role in channelling funds to the developing countries. Since the major industrialised countries are all in deficit and have substantial constraints on their public spending, the bulk of the additional funds which are required will have to come from those countries which possess the larger part of the world's financial surpluses — namely, the major OPEC countries.

But this will not happen unless these countries are given decision-making powers within the IMF and the World Bank which are more closely related to the size of their contributions to them. It is true that the recent deal between Saudi Arabia and the IMF doubled its voting powers in that institution. But that still leaves it with the smallest ratio of votes to dollars contributed of any member of the Fund. Given its record of financial prudence in lending to non-oil developing countries, the West cannot credibly oppose a fundamental reform of this inequitable situation on the grounds that it would undermine the financial responsibility of these institutions.

If the funds thus acquired by official institutions are to reach those developing countries which cannot afford to borrow substantially more from the commercial banks, a greater proportion of their lending will inevitably need to be subsidised. Indeed, it would probably put less strain on Western public budgets to subsidise the lending of OPEC capital to the Third World than to provide loan capital itself.

By a similar process, capital needs to be transferred to poor Third World countries for the development of sources of energy which are not large enough for the private corporations to risk the costs of initial exploration and development. Such modest discoveries of energy could greatly improve the payments positions and growth prospects of countries which lack the foreign exchange to import even the limited quantities of fuel which they require.

I have no doubt that these methods for encouraging transfers of loan and equity capital to the South will cause great offence to free-market purists, and their theoretical model of the world. But for many developing countries — and perhaps in the long run for the world economy as a whole — policies such as these constitute the very ingredients of survival.