The original documents are located in Box C19, folder "Presidential Handwriting, 4/23/1975" of the Presidential Handwriting File at the Gerald R. Ford Presidential Library.

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

April 23, 1975

MEMORANDUM FOR THE PRESIDENT

The enclosed article from the London Economist is a stark outline of the crumbling financial and fiscal condition of the United Kingdom. The budgeted level of total governmental expenditures approaches 60 percent of the GNP up from 57 percent in this fiscal year. (Recall that the comparable U.S. figure is one-third, but our transfer payments trend could eventually push us into the U.K. range.) Scheduled borrowing amounts to 9.8 percent of their GNP, the equivalent of approximately $150 billion of combined deficits for federal, state and local governments in the United States.

Observe that the British economy appears to be at the point where they must accelerate the amount of governmental fiscal stimulus just to stand still. This is clearly a very dangerous situation. The frightening parallels, with a lag, between the financial policies of the U.S. and those of the U.K. should give us considerable pause.

Alan Greenspan
Chairman

Give this material
to Bob H. & speech writers.

AMERICAN REVOLUTION BICENTENNIAL 1776-1976

BUSINESS *The budget*

Taxes rise, spending soars, wages blow the roof off

Mr Denis Healey's budget seemed tough. He put £1¼ billion on taxes this year and promised to take £1 billion off public spending for next year. Yet the huge public sector borrowing requirement means that it is going to be impossibly difficult to keep the rise in the money supply down to anything like the potential rise in productivity. That is the justification of those who say that this is the most inflationary budget in British history. It is a tough budget only in the sense that it does not make it easy to get any rise in production while Britain continues to try to run its present rate of wage inflation as well. But nobody should underestimate the meaning of the projected surge in public spending and lending.

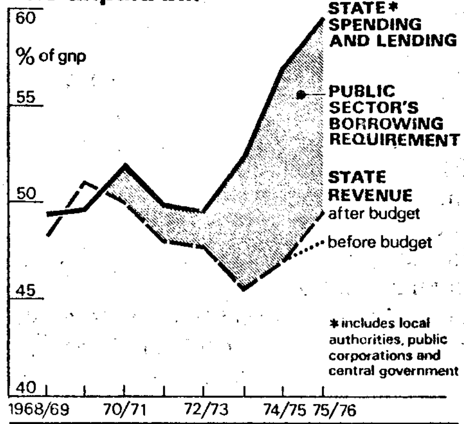
The total of public spending and lending is forecast to rise £10 billion this year (1975–76) to £54 billion, an increase of over one-fifth on last year. This will take the share of gnp which the state either spends itself, or gives and lends to others to spend, up from 57 per cent to just under 60 per cent. The sharp increase measures the cost of large public service wage increases and of the social security benefits paid to keep the government's side of the social contract. This was the bill the Chancellor had to pay for in his budget.

There were three ways to meet it: (1) out of extra revenue from tax buoyancy; (2) by borrowing more; and (3) by putting up tax rates. State revenue in 1974–75 came to £36½ billion. This was £7½ billion less than state spending and lending, so that £7½ billion had to be borrowed. In 1975–76, revenue was expected to rise, at the old tax rates, by £7 billion to £43½ billion. The shortfall below the projected £54 billion of state spending and lending would therefore have increased to £10½ billion, or over 11 per cent of gnp. This was too much for the Chancellor, so he slapped his extra £1¼ billion on tax rates to cut the borrowing requirement to £9 billion.

This £9 billion of borrowing for 1975–76 is still larger, both absolutely and as a per cent of gnp, than last year's £7½ billion. In that sense, the public sector's operations are pumping more, not less, demand into the economy. Moreover, Mr Healey's promised cuts in spending will not begin until 1976–77. The budget's effect on this year's state spending is to increase it.

How is it then that, with the state pumping more into demand, the economy is expected to slide deeper into recession? The answer is that as the rate of inflation accelerates it is not sufficient that the public sector's overspending should increase. The rate at which it increases must also go up if employment is not to come down. It is a game of double or quits. Last year's borrowing requirement was 9.8 per cent of gnp, up from 6.9 per cent the year before. This was just enough to prevent the economy taking a nosedive. This year's deficit looks like being increased to only a bit over 10 per cent. That is not enough to feed 20–25 per cent inflation and also protect everybody's job. And thank goodness it is not. If the government were to keep trying to finance every increase in wages to defeat unemployment, the end product would be hyperinflation.

The unpaid bill



In Healey's crystal ball

% volume changes between first halves

	1975 nil 1974	1976 nil 1975
Consumers' expenditure	+3.5	nil
Public expenditure	+2.5	+3.0
Consumption	+5.0	+3.5
Fixed investment	−2.5	+2.0
Private fixed investment	−5.0	−4.0
Exports of goods and services	nil	+5.0
Total final expenditure	+1.5	+2.0
Imports of goods and services	−4.0	+4.5
Adjustment to factor cost	+4.0	nil
Gdp at factor cost	+2.5*	+1.5

*Affected by fuel shortages which reduced output in early 1974.

Passing the buck

Town halls sighed with relief to hear that a consultative committee of ministers, officials and treasurers is to oversee local-government expenditure. Due to start work next month, the committee will set broad guidelines on how much local authorities should spend and on what.

Its existence will enable councils to pass on the blame for the cuts that most now daren't or won't perform. What is happening is that big projects are getting away—they are hard to stop in mid-career—while councils slam down on candle-ends, such as meals-on-wheels and other personal social services, which are the ones destined to suffer the bulk of the £75m cut in the £4 billion health and personal (ie, local authority) social services budget that Mr Healey plans for 1976.

A firm decision on the £115m of housing cuts must await the formation of the new committee. It seems that the £65m subsidy savings will be in the local authorities' rates subsidy to council-house rents, not from the £1 billion-plus of central government subsidy to council housing. The £50m of capital spending cuts are expected not to affect new council building but will be shaved off ancillary services—roads, drains and the municipalisation of private houses, which was to cost around £140m this year.

THE WHITE HOUSE

WASHINGTON

April 25, 1975

ADMINISTRATIVELY CONFIDENTIAL

MEMORANDUM FOR: ROBERT T. HARTMANN
PAUL A. THEIS

FROM: JERRY H. JONES

The President asked that the attached material be sent to you for your use and information.

Thank you.

cc: Don Rumsfeld
Alan Greenspan