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FORM OF DOCUMENT	CORRESPONDENTS OR TITLE	DATE	RESTRICTION
	1. memo case,, Siegman to Burns, 9/17/76		
la. memo	Charles Siegman to Bunrs re United Kingdom and international monetary matters (1 p.)	9/17/76	C(A)
lb. telegram	American Embassy London to Sec. of State, London 14244, re United Kingdom and international monetary matters (9 pp.)	9/9/76	A

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CHAIRMAN BURNS

For Information Only

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Division of International Finance

July 22, 1971

To: Board of Governors (through Mr. R. Solomon)

From: Martin J. Kohn

Subject: Conservative Government Acts to Stimulate U.K. Economy

Britain's Conservative Government moved to stimulate the economy on Monday by lowering indirect taxes, eliminating regulations governing the terms of installment credit purchases, and liberalizing depreciation allowances. The previous week, the Government had announced plans to spend £100 million over the next two years on construction projects in areas of particularly high unemployment. These expansionary measures will be accompanied by the introduction of at least a partial incomes policy whose goal is to limit price rises to 5 per cent a year.

The decision to take reflationary action comes in the wake of the findings of the Government's mid-year review that gross national product in the first half of 1971 was slightly more than one per cent below the level forecast when the budget for fiscal 1971-72 -- which began April 1 -- was presented to Parliament at the end of March. At that time, the Government announced several tax reductions designed to bring about growth in real GNP of 3.1

per cent from the first half of 1971 to the first half of 1972. On Monday, in disclosing the new stimulative measures to Parliament, Chancellor Barber laid down a new goal of a 4-1/2 per cent increase in real GNP between these two periods. In view of the gap of at least one per cent between planned and actual GNP in January-June, achievement of this objective would do little more than raise GNP in the first half of 1972 to a level no higher than .3 per cent above the target put forward in March.

The prime reason the Chancellor gave for seeking to boost aggregate demand at this time is the unacceptably high level of unemployment. Without further action to supplement expansionary measures taken earlier, the Chancellor said, there was little chance that joblessness would be reduced through the first half of 1972. Seasonally adjusted unemployment has risen steadily since last October, and in June the rate of unemployment was 3.2 per cent, exceptionally high by British standards. In October, it had been 2.6 per cent, itself an extremely high figure, at least by the yardstick of the post-war period through 1966.

Lowering unemployment, or at least dramatizing its commitment to do so, is of critical concern to the Conservative Government at the moment in the light of the scheduled October vote by Parliament on Britain's entry into the Common Market. In all likelihood, the October vote will go in favor of entry even though recent public opinion polls show that about two-thirds of the people are opposed to it. The Conservative Party at present enjoys a Parliamentary majority of 27 seats. If, as is expected, the Labor Party officially opposes entry and if strict party discipline is applied by both Labor and the Tories in the showdown vote, the MP's who break ranks will probably number no less than 30 in the Labor party, no more than 30 in the Conservative party. Thus the size of the margin in favor of Britain's joining the EC will probably be at least 25 to 30.

However, the Conservatives, on a matter of such great importance, no doubt want a much larger majority (and of course wish to minimize the risk, however slight, of losing or winning by so small a majority that entry becomes unacceptable). Their chances of expanding the margin of victory well beyond 30 votes will be significantly enhanced if the proportion of the public backing entry rises, particularly since lack of public support has been a strong incentive to the Labor party, which favored EC membership when in power, to oppose it now. The Labor party apparently reasons that opposing an at least temporarily unpopular government on an unpopular issue will work to their advantage, despite their vulnerability to charges of opportunism. But if the Conservatives are to increase popular support for entry, as they are now trying to do by vigorously proclaiming the benefits to be gained from membership, they must vastly improve their standing with voters. Largely because of rising unemployment and continuing inflation, public confidence in the Heath Government, as evidenced by public opinion polls and the results of recent by-elections, is now conspicuously absent. A necessary condition for boosting confidence, the Government has apparently decided, is the adoption of measures to improve the employment situation.1/

The Government's preoccupation with influencing the public's attitude toward the Common Market was demonstrated by the authorization last week of £100 million for public works construction in what are known as "development" and "intermediate" areas. For reasons not entirely clear, there has been widespread fear that Britain's joining the Common Market will lead to neglect of regional development plans. Last week's move was intended to assuage such anxiety. The £100 million will be spent over the next two years in Scotland, Wales and Northern England -- all areas suffering from high unemployment. The immediate reflationary effect will be small, with most projects not to begin until after 1972.

1/ The vulnerability of the Conservatives on the domestic economic issue was illustrated last week when a prominent Labor politician thought to have been a staunch pro-marketeer, Denis Healey, indicated that he would oppose entry. The former secretary of defense, now shadow foreign secretary, maintained that continuation of the present "appalling" economic conditions, which he blamed on the Conservatives, would prevent him from voting in favor of joining the EC. The logic of why the present state of the economy should cause renunciation of support for entry is not clear, but the switch in Healey's position illustrates the difficulties faced by Labor MP's with pro-market leanings in backing the governing Tory party, on behalf of an unpopular cause, when that party is apparently in political trouble in any event.

The principal aim of the measures instituted by the Heath Government on Monday is to provide an immediate stimulus to personal consumption. The main action was an across-the-board cut of 18 per cent in the Purchase tax, to which consumer goods accounting for perhaps half of total consumer goods expenditures are subject. Instituted in 1940, the purchase tax, which is levied at the wholesale level, is due to be abolished altogether in 1973, when the U.K. introduces a value added tax (VAT). There are four separate purchase tax rates, applied to different groups of goods. From March 1969 until Monday the rates were 55, 36-2/3, 22, and 13-3/4 per cent. They are now 45, 30, 18 and 11-1/4 per cent. The Government estimates that the reduction in revenue resulting from the low rates will be about £110 million for the balance of the current fiscal year. On a full-year basis, the reduction is estimated at £235 million.

The Government also abolished all restrictions on installment purchases of consumer goods Monday. Since November 1968, the length of installment loans on a wide variety of consumer durables, most notably automobiles, had been limited to two years, and minimum downpayment requirements, ranging from 20 to 40 per cent, had also been in force. The 40 per cent requirment was applicable to car sales. The Government did not estimate how great an increase in consumer expenditures it expected the removal of installment buying regulations to produce.

The choice of reflationary measures comes as no surprise. The Government has made clear since March that, if the easing of fiscal and monetary policy in the budget for fiscal 1971-72 furnished insufficient stimulus to meet the Government's growth targets, it would lower indirect taxes and relax or remove installment buying restrictions. Getting rid of the latter is in line with the recommendation of the Crowther Committee Report on consumer credit published in March. The Committee, set up in 1968, urged that controlling the terms of installment buying be dispensed with altogether, maintaining that it created inequities and was an inefficient tool of demand management in any event. (However, Chancellor Barber predicted Monday that the termination of administrative restraints on installment buying would "add substantially to demand.") Finally, in June several finance houses unilaterally declared that they would no longer abide by an understanding with the Government not to extend personal loans for installment purchases on terms more favorable than those permitted by hire purchase regulations. The fact that the Government did not protest was interpreted as a certain indication that installment buying would shortly be freed of all official restraint.

What did come as something of a surprise Monday was the magnitude of the stimulus applied. It had been assumed that if the government lowered taxes, it would do so by invoking the so-called regulator, which permits reduction in excise taxes and the

July 17, 1971 through July 31, 1973, to write off 80 per cent of such expenditures in the first year. The purpose of limiting the period in which higher depreciation rates are in effect is to spur immediate investment. In addition, service industries in the development areas will now enjoy the same right as other industries in these areas to write off certain plant and equipment expenditures in the same year in which they are made. The Government estimates that the taxes of the companies benefiting from these new regulations will be reduced by £40 million in fiscal 1972-73 and by £150 million in fiscal 1973-74.

In outlining the easier depreciation rules, the Chancellor stressed the importance of encouraging private fixed non-residential investment, which by all indications has been declining since the end of last year. In the absence of new incentives, such investment would probably continue to decline through next year. He also stressed, however, that he expected the main stimulus to investment to come from revived consumer demand.

The Chancellor estimated that the total reduction in taxes for fiscal 1971-72 instituted by the Conservatives now exceeds £1 billion, an amount equal to about 2 per cent of GNP at market prices. Earlier, tax cuts were announced in November when the Heath Government presented its plans for reducing the role of government in the economy, particularly by decreasing payments of welfare benefits, and in the presentation of the budget for 1971-72 in March. On a full-year basis, the various tax reductions amount to over £1.4 billion. Tax relief has been provided mainly through lowering personal and corporate income tax, cutting the selective employment tax and, now, reducing indirect taxes.

The fiscal stimulus to the economy in the next few months should be quite intense, since the tax reduction announced Monday will supplement two major tax cuts which were announced in March but which did not go into effect until early this month. These are the reduction in the selective employment tax, (which was cut by 50 per cent and which will be abolished entirely when VAT is introduced in 1973) and the decrease in personal income taxes resulting from an increase in family allowances. In addition, increases in social insurance payments will go into effect in September. Though these will be largely paid for out of higher contributions, the net effect is expected to be stimulative.

Though the reduction in purchase tax rates should have an anti-inflationary impact by lowering prices, inflation remains a serious problem. As already noted, prices continue to rise very rapidly. Although there has been evidence of some slackening in the rate of increase in recent months, wages also continue to advance at a swift pace. Wage earnings in the first four months of 1971 were 12.4 per cent higher than in the same period a year earlier. This is an improvement over the 13.9 per cent increase from the fourth quarter of 1969 to the fourth quarter of 1970, but it hardly reflects a rate of increase that can be considered sufficiently low. Furthermore, the improvement may have resulted largely from fewer settlements and a recession-induced reduction in overtime.

The Government is obviously concerned that the various expansionary measures which will be making themselves felt in the next several months may complicate its efforts to slow inflation. This concern was evident in the eagerness with which the Chancellor in his Monday speech embraced the initiative taken by the Confederation of British Industry -- Britain's leading trade association, whose membership accounts for about two-thirds of employment and production in manufacturing -- to place a ceiling on price increases. Specifically, the Chancellor warmly endorsed the CBI's plan to request its members to do their "utmost" to avoid price increases in the next 12 months and to limit increases deemed "unavoidable" to 5 per cent. In addition, he expressed agreement with the CBI's contention that implementation of its plan should be contingent on the nationalized industries' also promising to limit price rises to 5 per cent. The Chancellor intimated that the Government would see to it that the nationalized industries did so. Earlier this year, in fact, -- in April, long before the CBI initiative -- the Government compelled the British Steel Corporation to reduce a planned 14 per cent price boost to 7 per cent.

Until now the Government has eschewed setting specific guidelines or ceilings for limiting price and wage increases and, indeed, it can still claim that it is remaining aloof from such activities since, in a formal sense, the 5 per cent limit which will now serve as a quasi price ceiling for a broad segment of British industry was set by a private organization. However, it seems evident that the CBI initiative grew out of negotiations involving labor, management and government earlier this month. It would thus appear that, whether it admits it or not, the Government now favors the establishment of explicit limits on price increases. It would seem likely that the existence of such a ceiling will put great pressure on labor to modify their wage demands, something the unions are more likely to do now anyhow since this week's reflationary package may have somewhat mitigated their hostility toward the Government.

In one respect, the Government has picked an ideal time to introduce expansionary measures, since the balance of payments on current account remains in substantial surplus -- £600 million (almost $1.5 billion) at an annual rate in the first half. To demonstrate the strength of its external financial condition, the British will next month repay the IMF £256 million, thereby completing in advance repayment of its June 1968 drawings. Its outstanding debt to the Fund will thus be reduced to £417 million, the amount it drew in 1969-70.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date July 22, 1971

To Chairman Burns
(through Mr. R. Solomon)

From Martin J. Kohn MJK

Subject: CBI Price Ceiling and Labor Reaction

The Confederation of British Industry -- Britain's major trade association, whose 11,500 members account for about two-thirds of total manufacturing output -- called upon its members last week to call a halt to price increases and, where this was not possible, to limit "unavoidable" price increases to 5 per cent over the next year.

The CBI has indicated that it will ask its 200 largest members -- who, a source at the British Embassy estimates, probably account for 75 to 80 per cent of the total employment provided by CBI members -- to sign a declaration in which they would commit themselves for the year beginning August 1, 1971, to "avoid raising prices of products/services supplied in the United Kingdom; to limit any unavoidable increase in any of our prices to 5 per cent and, if possible, less; and, where larger increases are unavoidable, to limit the weighted average of price changes in the relevant range of products to 5 per cent or less." The interval between any price rises should be at least a year.

The CBI intends to police the actions of firms that sign the declaration. It will be understood that firms which subsequently find that special circumstances make adherence to the declaration untenable will take no action to raise prices without first consulting with the CBI. The most serious problems are anticipated in the area of food manufacturing and food retailing, whose input prices are largely determined in world markets over which the U.K. of course has no control.

The CBI initiative was clearly taken in cooperation with the Government, which, it is certain, has promised to require the nationalized industries to observe the 5 per cent price ceiling. The Government's credibility on this point need not be doubted. Despite its well-known aversion to direct interference in the price and wage setting process, the Heath Government compelled the British Steel Corporation to limit a price increase at the beginning of April to 7 per cent. The BSC had sought to boost prices by 14 per cent.

The CBI's establishment of a specific limit on price increases is certainly connected to the reflationary measures which were announced Monday and of which the CBI obviously knew in advance. The CBI has for some time been urging the Government to take expansionary action, and the move to institute formal price restraints reflects at the least an informal agreement that government moves to stimulate the economy be accompanied by specific measures to counter the inflationary dangers these moves entail.

Even if prices, on average, rise by 5 per cent a year, it will still represent a significant de-escalation of price inflation. From January-May 1970 to January-May 1971, retail prices rose by 9 per cent. Wholesale prices of manufactured goods between the same two periods rose by 8 per cent.

To date, the Trades Union Congress -- the counterpart in labor of the CBI in industry -- has not issued an official statement on either the CBI initiative or the Government's reflationary package, but spokesmen for the British labor movement have generally expressed at least qualified approval. However, they have given no indication that labor will set wage ceilings or guidelines to parallel the 5 per cent limit on price rises instituted by the CBI. Nor, according to British press commentary and comments made to me by sources in the British Embassy, is there any likelihood that it will do so in the foreseeable future. One Embassy contact stated flatly that it was in effect unthinkable that the labor movement would itself place an explicit ceiling on wage increases under a Conservative Government.

However, even in the absence of a definite upper limit on wages, the prospects for a slowing in wage increases appear bright. With their demands for both reflationary action and price restraint measures now met, the unions are under great pressure to moderate their wage demands. Furthermore, union leaders are now in a position where they can adopt a more temperate line in wage negotiations -- as many of them doubtless wish to do, given the correlation between rising unemployment and exorbitant wage increases -- without risking loss of support by the rank and file.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
1975 MAR 26 AM 9:45
RECEIVED
OFFICE OF THE CHAIRMAN

Date March 25, 1975

To Chairman Burns (through Mr. Bryant)

Subject: Attempts to Allocate Credit in the United Kingdom

From Larry J. Promisel

LJP

In 1971, the Bank of England abandoned its system of quantitative credit controls and adopted instead its new system of "Competition and Credit Control." At the same time, the Bank reserved the authority "... to provide the banks with such qualitative guidance as may be appropriate" (see Bank of England Quarterly Bulletin, June 1971, p. 192).

"Qualitative guidance" was first provided under the new system in August 1972. The volume of bank lending to the private sector had been large and accelerating, contributing to an expansion of the money stock (broadly defined) at an annual rate of about 30 per cent in previous months. A large part of the bank lending was associated with property speculation and financial transactions, which had undesirable consequences especially for land prices. Moreover, the Bank of England was concerned that the banks would not be in a position to meet industry's loan demand when the desired and expected increase in industrial investment materialized. Consequently, the Bank sent a letter to the banking system reminding the banks that industrial loan demand was expected to rise and urging them to cut other lending so as to be able to satisfy this demand. (see Attachment 1)

In the subsequent year, the monetary aggregates generally continued to grow too rapidly. Despite the Bank of England's letter,

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bank lending to property and other financial companies had been growing as well, partly because facilities arranged earlier were being drawn on. In September 1973, the Bank sent a second letter to the banks reinforcing the first letter. (see Attachment 2)[1/].

Finally, in December 1973, the Bank of England introduced its supplementary deposit scheme, in a more determined attempt to limit the rate of growth of the money supply; the "qualitative guidance" provided by the Bank of England remained in force (see Attachment 3). The supplementary deposit scheme, which penalized banks whose interest-bearing liabilities grew faster than an allowed rate, was suspended in February 1974 because the banks' deposits were so far below their ceiling.

In addition to the attempts, just cited, to influence the allocation of credit, a system has existed in Britain for many years whereby credit for exports and for shipbuilding is offered on relatively favorable terms.

1/ To protect the Building and Loan Societies, banks were also asked to pay no more than 9-1/2% on deposits of less than £10,000.

Attachments 3.

cc: Mr. Bryant
Mr. Siegman
Mr. Dod
Mr. Coyne

ATTACHMENT 1

Bank lending

The text of a letter which the Governor of the Bank of England sent on 7th August 1972 to the banking system

There are now signs that demand from industry for bank finance to sustain expanding activity is growing more broadly than in recent months.

I am sure banks appreciate the need to meet this demand if the growth of the economy is to proceed soundly; and I ask that they should as necessary make credit less readily available to property companies and for financial transactions not associated with the maintenance and expansion of industry. Indeed, I understand that the London clearing banks are already taking steps in this direction.

Printed in Bank of England Quarterly Bulletin, September 1972.

Credit notice

Text of a letter which the Governor of the Bank of England sent to the main banking associations on 11th September 1973

Bank lending

After two years of active competition in the provision of credit, the greater part of the banking system is now much closer to being fully lent. In addition, the banks are now being asked (below) to limit their bidding for small deposits. They will thus find it more difficult to provide the resources to meet all their customers' requirements. It is, however, clearly necessary, if the growth of the economy is to proceed soundly, that the demand for credit to finance a higher volume of exports and industrial investment and for other essential purposes should be satisfied. In order to ensure the availability of credit for such purposes it will in my view be necessary further to limit lending in the less essential areas. Accordingly I have to ask that all banks should in their lending policies adhere to this guidance on the direction of their lending. This will involve significant restraint on the provision of credit for persons (other than for house purchase) and further restraint on lending for property development and financial transactions.

Building societies

In the Bank's consultative document on competition and credit control it was recognised that circumstances might arise in which competition for individuals' savings might require to be restrained in the interests of the finance of housing. Such circumstances at present prevail and I have to ask that, with immediate effect, banks shall now observe a limit of 9½% on the rate of interest which they pay on deposits in amounts of under £10,000. The technical details of this arrangement are set out in the enclosed note [see below].

'Merry-go-round' or interest arbitrage activities

In view of the recent indications of the extent to which some companies have been drawing on overdraft facilities, not for the purposes for which the facilities were sought but to invest in higher-yielding certificates of deposit or other money market instruments, I have been pleased to learn that some banks have recently been taking steps to curtail this practice. Such activities operate to put unnecessary pressures on money markets and are thus harmful. Accordingly I encourage all banks to be on the watch for, and active in combatting, this misuse of their lending facilities.

Notice to banks

The Bank of England have today requested all banks to pay no more than 9½% on any deposit with them of less than £10,000. This request applies with immediate effect and until further notice. These deposits are defined as interest-earning balances of less than £10,000 of whatever term to maturity. This limit will not be applied to any existing deposits which have been placed up to the close of business tonight at fixed rates for fixed or minimum periods. It will apply, however, to any existing deposits, as defined, which have been placed for fixed periods at floating rates or which have no fixed maturity or which are extended after the expiry of an initial minimum period.

Printed in Bank of England Quarterly Bulletin, December 1973.

Notice to banks and deposit-taking finance houses issued by the Bank of England on 17 December 1973

1 Supplementary scheme

The Bank ask that banks and deposit-taking finance houses should be prepared to place with the Bank non-interest-bearing special deposits in relation to the growth in each institution's interest-bearing resources on the following basis:

(i) interest-bearing resources to be defined as the interest-bearing element of each institution's eligible liabilities;

(ii) the growth in each institution's interest-bearing resources as defined in (i) above to be measured from the average of the amounts outstanding on the three make-up days preceding each activation of this scheme;

(iii) up to 50% of the growth in each institution's interest-bearing resources, on a three months' moving average basis, over and above a rate to be specified, to be placed on non-interest-bearing deposit with the Bank, subject to:

(iv) no deposit being required to be lodged within the first six months of the initial activation of this scheme;

(v) non-interest-bearing special deposits made to be repayable in full should the growth in an institution's interest-bearing resources fall back to the rate specified or in part if the amount of the excess should decline;

(vi) the requirement to lodge non-interest-bearing special deposits to be capable of variation or suspension at the Bank's discretion.

The initial activation of the scheme will take place immediately and will apply to all banks (except the Northern Ireland banks) and to deposit-taking finance houses. The base level will therefore be the average of interest-bearing resources at the make-up days for October, November and December 1973. The rate of growth specified is 8% for the first six months; the rate to be specified thereafter will be notified in due course, but not later than the end of April 1974. The rate of deposit required will be progressive with the excess rate of growth of each institution's interest-bearing resources: in respect of an excess of 1% or less, the rate will be 5%; in respect of an excess of over 1% but not more than 3%, the rate will be 25%; thereafter the rate will be 50%.

The effect of these arrangements is that, if the average of an institution's interest-bearing resources on the make-up days for April, May and June 1974 were to exceed the average amount outstanding on the make-up days in October, November and December 1973 by more than 8%, a non-interest-bearing special deposit on the scale specified above would be required to be lodged during July 1974. Thereafter the requirement to lodge non-interest-bearing special deposits will be assessed monthly in relation to the rate of growth in interest-bearing resources to be specified.

Banks and deposit-taking finance houses are not expected to respond to the introduction of these arrangements with a general rise in their lending rates.

2 Other matters

Banks and finance houses are asked to reinforce strongly their restraint on lending to persons generally, to property companies and for purely financial transactions.

In view of the introduction of the new arrangements and taking account also of the immediate prospects for the reserve asset position of banks and deposit-taking finance houses, the Bank have decided, with the approval of the Chancellor of the Exchequer, to revoke the calls for special deposits, each of ½% of eligible liabilities, which were due to have been made on 27th December 1973 and 2nd January 1974.

Note

Since this notice was issued, the Bank have considered the problems which the supplementary scheme posed for banks (such as those newly established) with a very small base of interest-bearing resources. As a result, it has now been decided that banks should be exempt from the requirements of the scheme until their interest-bearing eligible liabilities average £3 million or more for a period of three months. Thereafter, in the current period of operation, the rate of growth of interest-bearing eligible liabilities permitted before non-interest-bearing special deposits become payable will be related to a base of £3 million. Banks to which this provision applies will continue to be subject without modification to the obligation to maintain the reserve asset ratio, and to respond to general calls for special deposits. The exemption will not apply to finance houses, which are not subject to the arrangements for control of credit until their eligible liabilities reach £5 million.

Printed in Bank of England Quarterly Bulletin, March 1974.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date September 4, 1975

To Chairman Burns

Subject: Visit of Sir Douglas Wass

From Larry Promisel

As background for your scheduled meeting with Sir Douglas Wass, I am attaching a brief discussion, prepared for the August Greenbook, of the Wilson Government's current anti-inflation policy. For your information, the Trades Union Congress, at their annual convention yesterday, endorsed by a margin of 2 to 1 the £6 per week limit on wage increases.

A table showing recent economic indicators for the United Kingdom is also attached.

Attachments

<u>Anti-Inflation Policy in the United Kingdom.</u> New anti-inflation measures in Britain -- announced on July 11 -- became effe tive on August 1. The goal -- to be achieved principally by limiting pay increases -- is to reduce the rate of price inflation from the current annual rate of about 25 per cent to 10 per cent by the fourth quarter of 1976. For all employees earning less than £8500 ($18,000) per year, pay increases will be limited to a maximum of £6 per week (or slightly more than 10 per cent on average) for the 12 months beginning August 1; the less-than-one per cent of employees earning more than £8500 per year will receive no pay increase at all. Only one pay settlement per year will be allowed. Dividend increases will be limited to 10 per cent per year (instead of the previous 12-1/2 per cent).

To make the pay limitations more palatable to workers, price controls will be retained beyond the March 1976 scheduled expiration date. The Government will try to ensure that prices for goods of special importance in the family budget will not rise more than 10 per cent. The previously scheduled phasing-out of food subsidies will be delayed. Rent increases will be limited to the general rate of inflation.

This policy as it now stands is not statutory, although the Government has prepared -- but hopes not to have to submit -- legislation that would apply legal sanctions on employers, not on employees, if the pay limits are exceeded. Yet even though the Government cannot now stop excessive settlements from being granted, it does have existing powers to ensure that the costs to the employer of such settlements cannot be passed on. These powers are especially strong so far as public sector settlements are concerned. In the nationalized industries, by controlling subsidies, access to borrowing, and product and service prices, the Government can ensure that excessive wage increases can be paid for only by reducing employment. Similarly, the Government controls grants to, and borrowing by, local authorities, although the latter can raise taxes. Control over the private sector is less direct. Existing price controls have been modified so that if pay increases exceed the £6 limit, no part of the increase at all can be used to justify increasing product prices. The higher wages can, however, be paid for by the private sector out of profits or by reducing employment.

Beyond the controls just cited, the Government must rely on the acceptance by the unions of the pay policy. There is some basis for hoping that union leaders and membership have generally accepted the necessity of this policy as an alternative to cuts in public expenditures. The announcements last week of a temporary subsidy to employers in depressed regions who refrain from laying-off additional workers, and of reduced lay-offs at British Steel, help to solidify union support. Moreover, the high and rising level of unemployment makes this a propitious time to introduce a policy of wage restraint. But, clearly, moderation of wage demands, in particular of the more militant unions, remains to be tested.

United Kingdom: Selected Economic Indicators

	1974		1975				
	Q3	Q4	Q1	Q2	May	June	July
Production (percentage change from preceding period, SAAR)							
GDP	7.1	-2.5	-1.8	-7.4 a/	n.a.	n.a.	n.a.
Industrial production	2.7	-12.0	-3.0	-13.3	-15.3	-6.3	n.a.
Prices and Wages (percentage change from same period in previous year)							
Retail prices	17.0	18.2	20.3	24.3	25.0	26.1	26.3
Wholesale prices	25.7	27.7	27.3	25.1	25.7	25.0	24.8
Average earnings (SA)	19.9	25.3	31.7	28.2(p)	28.4	25.4(p)	n.a.
Unemployment (Great Britain, seasonally adjusted)							
Average Level (thousands)	600	605 b/	701	813	817	864	938
As per cent of employees	2.6	2.7 b/	3.1	3.6	3.6	3.8	4.1
Money supply (percentage change from preceding period, SAAR)							
M_1	5.6	12.9	24.3	30 c/	9.7	2.4	34.7
M_3	16.6	8.2	10.8	9.2	19.4	-3.2	3.9

a/ Estimate based on output data.
b/ Because of a labor dispute among civil servants, no December data were compiled. Calculation based on average of October-November only.
c/ Break in series in May 75. Q2 average estimated.
p/ Preliminary.

	1974 Year	1975 Q1	1975 Q2	1975 June	1975 July
Current Account (£millions, seasonally adjusted)					
Balance of Merchandise Trade	-5259	-716	-450	-160	-294
of which: Petroleum	-3446	-781	-662	-223	-234
Other	-1813	65	212	63	-60
Net services and transfers	1488	374	360	120	120
Current account balance	-3771	-342	-90	-40	-174
Official foreign reserves ($ millions)					
Level at end of period	6789	7117	6198	6198	6259
Change during period	313	328	-919	-293	61
Public sector borrowing	2606	1115	369	261	69

	1974 3/29	1974 6/28	1974 9/27	1974 12/31	1975 3/27	1975 6/30	1975 9/3
Interest rates and equity prices							
3-month interbank sterling	17.50	13.13	11.75	12.44	9.88	9.63	10.38
Yield on perpetuities (3-1/2% War Loan)	14.67	15.41	15.07	17.44	13.61	14.76	13.38 (9/1)
Index of industrial stock prices (Financial Times Industrial Ordinary)	267.4	255.1	186.8	159.6 (12/27)	280.3	295.6 (6/27)	323.4 (9/1)

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date April 8, 1976

To Chairman Burns

From Charles J. Siegman CJS

Subject: More on Congressman Stanton's Visit to London

Jim Ammerman called this morning and informed me that the results of his efforts to arrange appointments for Congressman Stanton for April 24 were "dreadful". The responses he received from those to whom he spoke were basically negative.

The Treasury offered to have an official speak "by telephone" to the Congressman. The private bankers questioned the need for Saturday appointments and wondered why an Embassy briefing would not be sufficient. The Bank of England did not think that it would be feasible to have someone available on Saturday. John Kerbyshire, however, graciously offered to host a dinner for the Congressman for Friday evening, if Congressman Stanton's schedule would enable him to arrive in London by Friday afternoon or so. Kerbyshire would invite an official from the Treasury and perhaps others for the dinner.

In view of the difficulty of scheduling appointments on Saturday, it would seem that the Kerbyshire offer is the best solution for Congressman Stanton if he could make it to London by Friday afternoon. But I do not know the Congressman's itinerary to assess whether this is feasible.

Please let me know how to proceed. Jim Ammerman would like to inform Kerbyshire whether or not the Friday dinner is on or off. Also, Ammerman would like to know whether Congressman Stanton would be satisfied with a briefing from the Embassy on Saturday if he does not succeed in making other appointments.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date April 14, 1976

To Chairman Burns

Subject: Follow-up on Congressman Stanton's Visit to London

From Charles J. Siegman CJS

Attached is a copy of a telegram from London that confirms the arrangements made by Jim Ammerman for Congressman Stanton's visit to London.

At the suggestion of Mrs. Mallardi, I conveyed the information contained in the telegram to Congressman Stanton's Administrative Assistant, Mrs. Shirlee McGloon, and asked her to request the Congressman's approval of the proposed arrangements. Mrs. McGloom called me this morning, and informed me that Congressman Stanton is satisfied with the arrangements, but that he is not able to make the suggested meeting with two commercial bankers on Saturday morning at 11 a.m.

I informed Jim Ammerman that Congressman Stanton is pleased with the dinner and meetings arranged for him, but that he regrets that he is unable to meet with the commercial bankers. I also notified Ammerman that Congressman and Mrs. Stanton have changed their flight from Dublin and now are scheduled to arrive in London at 3:30 p.m. on April 23. Finally, since Congressman Stanton is leaving Washington on April 19th, I requested Ammerman to inform the Embassy control officer handling the Congressman's visit in London of the location and time of the Kerbyshire dinner, and that the Congressman expects to receive this information upon his arrival.

un
CJS

Department of State TELEGRAM

II

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DEPARTMENT PASS CHARLES SEIGMUND, FEDERAL RESERVE BOARD
FROM AMMERMAN

E.O. 11652: N/A
TAGS: OVIP
SUBJECT: VISIT OF CONGRESSMAN AND MRS. J.WILLIAM STANTON

1. KIRBYSHIRE, BANK OF ENGLAND, CONFIRMS HE WILL BE PLEASED TO HOST STAG WORKING DINNER FOR CONGRESSMAN STANTON, FRIDAY EVENING APRIL 23. HE PLANS INVITE AN HM TREASURY OFFICIAL AND, IN AMMERMAN'S ABSENCE, ASSISTANT FINANCIAL ATTACHE SWOFFORD.

2. EMBASSY OFFICERS WIILL PROVIDE POLITICAL/ECONOMIC BRIEFING FOR CONGRESSMAN AND MRS. STANTON SATURDAY MORNING, APRIL 24.

3. MESSRS. FRANK GOODHUE, NATIONAL CITY BANK OF CLEVELAND AND SAM MARSHALL, UNION COMMERCE BANK OF CLEVELAND, HAVE VOLUNTEERED TO GIVE CONGRESSMAN BRIEFING ON SATURDAY MORNING, APRIL 24. BOTH THESE MEN ARE HIGHLY RESPECTED AND KNOWLEDGEABLE. FINANCIAL ATTACHE RECOMMENDS ACCEPTANCE ON CONGRESSMAN'S BEHALF. PLEASE ADVISE.

GERALD R. FORD LIBRARY

4. WE PLAN SCHEDULE SATURDAY MORNING APPOINTMENTS IN PARA 2 AND 3 AT EMBASSY AT 10:00 A.M. AND 11:00 A.M., RESPECTIVELY. LOGISTICAL DETAILS FRIDAY DINNER WILL BE CONFIRMED LATER.
ARMSTRONG

UNCLASSIFIED

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date June 22, 1976

To Chairman Burns

From Charles J. Siegman CJS

Subject: U.K. Inflation and Public Sector Borrowing Requirements

Attached as requested are two copies of a note, two tables and one graph that presents basic data for the 1965-76 period on inflation, earnings, exchange rates, and public sector borrowing requirements for the United Kingdom. The material was prepared by David Howard.

Attachments.

June 22, 1976

U.K. Inflation and the Public Sector Borrowing Requirement

Inflation

Table 1 presents the rates of inflation in retail prices, wholesale prices, average earnings, and the rate of change in the exchange rate for sterling against the dollar for 1965-1976. The attached graph shows the rates of inflation in retail prices and average earnings for the 1971-1976 period.

-- In the mid-1960's, U.K. wage and price inflation rates were relatively moderate, but started to accelerate in the early 1970's.

-- U.K. inflation rates were high even before the oil price rise at the end of 1973 but have increased significantly until recently.

-- A slowing in price inflation began around the third quarter of 1975, before the deceleration in wage inflation and at the time the £6 limit to wage increases took effect.

-- It is not expected that the rate of price inflation will be reduced below 10 per cent until at least mid-1977.

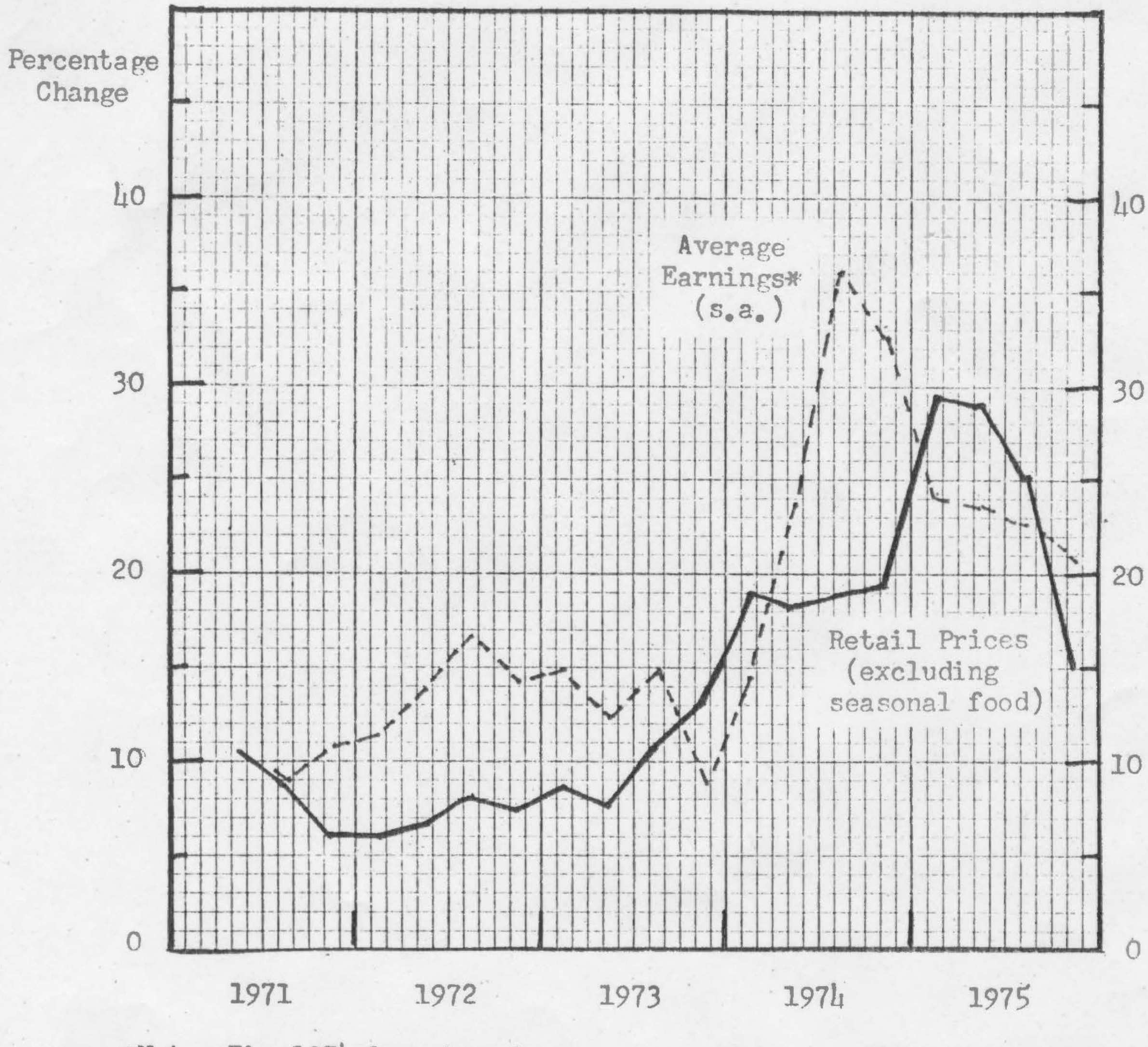
Public Sector Borrowing Requirement

Table 2 presents some data on the size of the public sector borrowing requirement in relation to nominal gross domestic product, total public expenditure, and total public sector revenue for calendar years during the 1965-1975 period.1/

1/ The public sector account includes central government, local government, and nationalized industries. The public sector borrowing requirement is the public sector financial deficit plus government net lending to other sectors. Government net lending to other sectors is forecast to be £1.4 billion in the current fiscal year.

Percentage Changes in Retail Prices and Average Earnings

(Three-Quarter Moving Average at Annual Rate)



*Note: The 1974:1 number for average earnings reflects the 3-day work week.

GERALD R. FORD LIBRARY

-- The relative size of the public sector borrowing requirement has grown during the 1970's, as has the relative size of the public sector (as measured by <u>total</u> public expenditures, i.e., including capital expenditures for nationalized industries).

-- In 1973 and 1974, even though the unemployment rate had decreased from its 1972 level, the relative size of the borrowing requirement continued to increase.

-- The borrowing requirement for the current fiscal year that began April 1 is expected to be about £12 billion, about 10 per cent of nominal gross domestic product.

TABLE 1

United Kingdom: Price, Wage, and Exchange Rate Developments (1965-1976)

	Retail Prices		Wholesale Prices		Average Earnings in Great Britain (SA)		Dollar Price of Sterling	
	Index (excluding seasonal food)	Percentage Change over Previous Period (annual rate)	Index	Percentage Change over Previous Period (annual rate)	Index	Percentage Change over Previous Period (annual rate)	Average	Percentage Change over Previous Period (annual rate)
1965	80.2	4.6	83.3	3.7	74.1	7.1	2.7959	0.1
1966	83.2	3.7	85.6	2.8	79.0	6.6	2.7930	-0.1
1967	85.2	2.4	86.5	1.1	81.8	3.6	2.7504	-1.5
1968	89.3	4.8	89.9	3.9	88.2	7.8	2.3935	-13.0
1969	93.9	5.2	93.4	3.9	95.2	7.8	2.3901	-0.1
1970	100.0	6.5	100.0	7.1	106.7	12.1	2.3959	0.2
1971	109.5	9.5	109.0	9.0	118.7	11.3	2.4442	2.0
1972	117.0	6.8	114.8	5.3	134.1	13.0	2.5008	2.3
1973	126.7	8.3	123.2	7.3	152.1	13.4	2.4510	-2.0
1974	147.0	16.0	152.0	23.4	178.8	17.5	2.3403	-4.5
1975	182.6	24.2	188.7	24.1	226.5	26.7	2.2216	-5.1
1971: 1	105.6	10.1	106.3	11.7	114.9	11.2	2.4142	4.2
2	109.0	13.5	108.7	9.3	117.1	7.9	2.4185	0.7
3	110.9	7.2	110.3	6.0	120.4	11.8	2.4413	3.8
4	112.3	5.1	110.8	1.8	122.5	7.2	2.5042	10.7
1972: 1	113.9	5.8	112.1	4.8	126.4	13.3	2.5979	15.8
2	115.9	7.2	113.5	5.1	130.5	13.6	2.5968	-0.2
3	117.8	6.7	115.6	7.6	135.0	14.5	2.4455	-21.3
4	120.7	10.2	118.0	8.6	141.8	21.7	2.3637	-12.7
1973: 1	122.2	5.1	119.5	5.2	144.0	6.4	2.4181	9.5
2	125.2	10.2	120.1	2.0	149.6	16.5	2.5302	19.9
3	127.7	8.2	124.2	14.4	154.7	14.3	2.4790	-7.9
4	131.8	13.5	129.1	16.7	159.8	13.9	2.3787	-15.2
1974: 1	137.2	17.4	138.3	31.7	159.1	-1.7	2.2792	-15.7
2	145.3	25.8	148.9	34.4	170.1	30.7	2.3977	22.5
3	149.4	11.8	156.1	20.8	185.5	41.4	2.3516	-7.5
4	156.1	19.2	164.9	25.5	200.3	35.9	2.3294	-3.7
1975: 1	165.6	26.7	176.0	29.8	209.6	19.9	2.3913	11.1
2	180.7	41.8	186.3	25.5	218.1	17.2	2.3246	-10.7
3	188.7	18.9	193.4	16.1	234.5	33.6	2.1283	-29.7
4	195.2	14.5	199.1	12.3	243.9	17.0	2.0419	-15.3
1976: 1	200.9	12.2	206.8	16.4	250.8	11.8	1.9961	-8.7

TABLE 2

United Kingdom: Public Sector Borrowing Requirement (PSBR) (1965-1975)

Calendar Year	£ Million	PSBR as a percentage of: Nominal GDP at Market Prices	Total Public Expenditure	Total Public Sector Revenue	Memoranda: Total Public Expenditure as a Percentage of GDP at Market Prices	Unemployment Rate
1965	1,205	3.4	8.5	9.3	39.7	1.4
1966	961	2.5	6.3	6.7	40.3	1.5
1967	1,862	4.6	10.6	11.9	43.7	2.3
1968	1,279	2.9	6.7	7.2	44.1	2.4
1969	-466	-1.0	-2.4	-2.3	42.7	2.4
1970	-18	-0.0	-0.1	-0.1	43.1	2.6
1971	1,371	2.4	5.6	6.0	43.0	3.4
1972	2,038	3.2	7.4	8.0	43.6	3.7
1973	4,176	5.8	13.0	15.0	44.9	2.6
1974	6,356	7.8	15.2	17.9	51.6	2.6
1975	10,464	10.3	19.4	24.0	53.1	4.0

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date June 22, 1976

To Chairman Burns

From Charles J. Siegman CJS

Subject: U.K. Inflation and Public Sector Borrowing Requirements

Attached as requested are two copies of a note, two tables and one graph that presents basic data for the 1965-76 period on inflation, earnings, exchange rates, and public sector borrowing requirements for the United Kingdom. The material was prepared by David Howard.

Attachments.

June 22, 1976

U.K. Inflation and the Public Sector Borrowing Requirement

Inflation

Table 1 presents the rates of inflation in retail prices, wholesale prices, average earnings, and the rate of change in the exchange rate for sterling against the dollar for 1965-1976. The attached graph shows the rates of inflation in retail prices and average earnings for the 1971-1976 period.

- -- In the mid-1960's, U.K. wage and price inflation rates were relatively moderate, but started to accelerate in the early 1970's.
- -- U.K. inflation rates were high even before the oil price rise at the end of 1973 but have increased significantly until recently.
- -- A slowing in price inflation began around the third quarter of 1975, before the deceleration in wage inflation and at the time the £6 limit to wage increases took effect.
- -- It is not expected that the rate of price inflation will be reduced below 10 per cent until at least mid-1977.

Public Sector Borrowing Requirement

Table 2 presents some data on the size of the public sector borrowing requirement in relation to nominal gross domestic product, total public expenditure, and total public sector revenue for calendar years during the 1965-1975 period.1/

1/ The public sector account includes central government, local government, and nationalized industries. The public sector borrowing requirement is the public sector financial deficit plus government net lending to other sectors. Government net lending to other sectors is forecast to be £1.4 billion in the current fiscal year.

-- The relative size of the public sector borrowing requirement has grown during the 1970's, as has the relative size of the public sector (as measured by <u>total</u> public expenditures, i.e., including capital expenditures for nationalized industries).

-- In 1973 and 1974, even though the unemployment rate had decreased from its 1972 level, the relative size of the borrowing requirement continued to increase.

-- The borrowing requirement for the current fiscal year that began April 1 is expected to be about £12 billion, about 10 per cent of nominal gross domestic product.

TABLE 1

United Kingdom: Price, Wage, and Exchange Rate Developments (1965-1976)

		Retail Prices		Wholesale Prices		Average Earnings in Great Britain (SA)		Dollar Price of Sterling	
		Index (excluding seasonal food)	Percentage Change over Previous Period (annual rate)	Index	Percentage Change over Previous Period (annual rate)	Index	Percentage Change over Previous Period (annual rate)	Average	Percentage Change over Previous Period (annual rate)
1965		80.2	4.6	83.3	3.7	74.1	7.1	2.7959	0.1
1966		83.2	3.7	85.6	2.8	79.0	6.6	2.7930	-0.1
1967		85.2	2.4	86.5	1.1	81.8	3.6	2.7504	-1.5
1968		89.3	4.8	89.9	3.9	88.2	7.8	2.3935	-13.0
1969		93.9	5.2	93.4	3.9	95.2	7.8	2.3901	-0.1
1970		100.0	6.5	100.0	7.1	106.7	12.1	2.3959	0.2
1971		109.5	9.5	109.0	9.0	118.7	11.3	2.4442	2.0
1972		117.0	6.8	114.8	5.3	134.1	13.0	2.5008	2.3
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	4	112.3	5.1	110.8	1.8	122.5	7.2	2.5042	10.7
1972:	1	113.9	5.8	112.1	4.8	126.4	13.3	2.5979	15.8
	2	115.9	7.2	113.5	5.1	130.5	13.6	2.5968	-0.2
	3	117.8	6.7	115.6	7.6	135.0	14.5	2.4455	-21.3
	4	120.7	10.2	118.0	8.6	141.8	21.7	2.3637	-12.7
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	2	145.3	25.8	148.9	34.4	170.1	30.7	2.3977	22.5
	3	149.4	11.8	156.1	20.8	185.5	41.4	2.3516	-7.5
	4	156.1	19.2	164.9	25.5	200.3	35.9	2.3294	-3.7
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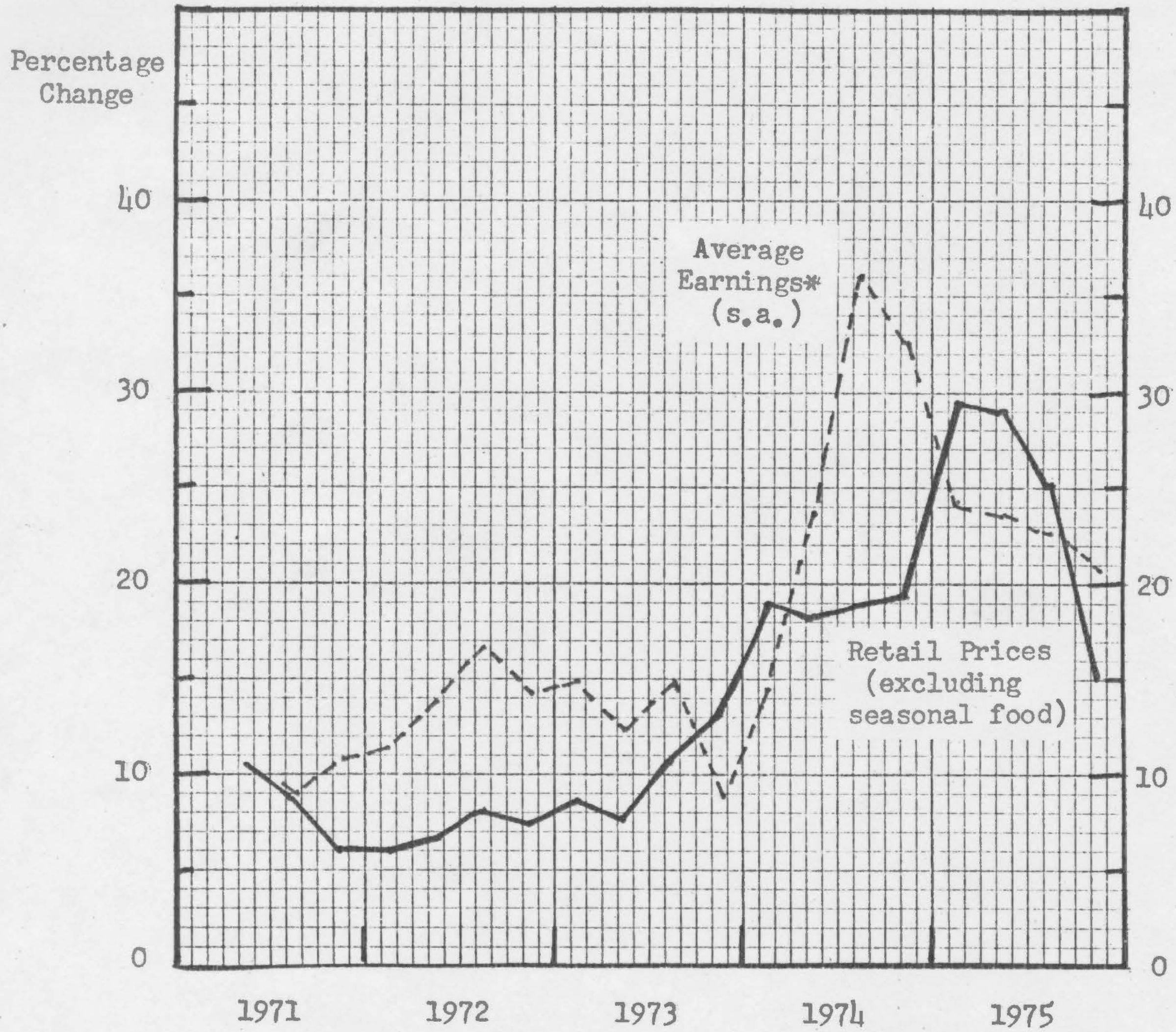
	2	180.7	41.8	186.3	25.5	218.1	17.2	2.3246	-10.7
	3	188.7	18.9	193.4	16.1	234.5	33.6	2.1283	-29.7
	4	195.2	14.5	199.1	12.3	243.9	17.0	2.0419	-15.3
1976:	1	200.9	12.2	206.8	16.4	250.8	11.8	1.9961	-8.7

Percentage Changes in Retail Prices and Average Earnings

(Three-Quarter Moving Average at Annual Rate)



*Note: The 1974:1 number for average earnings reflects the 3-day work week.

GERALD R. FORD LIBRARY

TABLE 2

United Kingdom: Public Sector Borrowing Requirement (PSBR) (1965-1975)

Calendar Year	£ Million	PSBR as a percentage of: Nominal GDP at Market Prices	Total Public Expenditure	Total Public Sector Revenue	Memoranda: Total Public Expenditure as a Percentage of GDP at Market Prices	Unemployment Rate
1965	1,205	3.4	8.5	9.3	39.7	1.4
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1975	10,464	10.3	19.4	24.0	53.1	4.0

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date June 24, 1976

To Chairman Burns

Subject:

From Charles J. Siegman CJS

Attached is the revision of the note, tables and graph on U.K. inflation and government budget deficits.

Attachment.

U.K. Inflation and the Government Budget Deficit

Inflation

Table 1 presents the rates of inflation in retail prices, wholesale prices, average earnings, and the rate of change in the exchange rate for sterling against the dollar for 1965-1976. The attached graph shows the rates of inflation in retail prices and average earnings for the 1971-1976 period.

-- In the mid-1960's, U.K. wage and price inflation rates were relatively moderate, but started to rise in the early 1970's.

-- U.K. inflation rates were high even before the oil price rise at the end of 1973 but have increased significantly until recently.

-- A slowing in price inflation began around the third quarter of 1975, before a decline in wage inflation and at the time a limit on wage increases took effect.

-- It is not expected that the rate of price inflation will be reduced below 10 per cent until at least mid-1977.

Government Budget Deficit -- Public Sector Borrowing Requirement

In the United Kingdom, the public sector includes central government, local government, and nationalized industries. The deficit of this sector is referred to as the public sector borrowing requirement. Table 2 presents data on the size of the public sector borrowing requirement in relation to nominal gross domestic product (roughly equivalent to GNP), total public expenditure, and total public sector revenue for calendar years during the 1965-1975 period.

-- The relative size of the public sector borrowing requirement has grown during the 1970's, as has the relative size of the public sector (as measured by <u>total</u> public expenditures, i.e., including capital expenditures for nationalized industries).

-- In 1973 and 1974, even though the unemployment rate had decreased from its 1972 level, the relative size of the borrowing requirement continued to increase.

-- The borrowing requirement for the current fiscal year that began April 1 is expected to be about £12 billion, about 10 per cent of nominal gross domestic product.

TABLE 1

United Kingdom: Price, Wage, and Exchange Rate Developments (1965-1976)

		Retail Prices		Wholesale Prices		Average Earnings in Great Britain (SA)		Dollar Price of Sterling	
		Index (excluding seasonal food)	Percentage Change over Previous Period (annual rate)	Index	Percentage Change over Previous Period (annual rate)	Index	Percentage Change over Previous Period (annual rate)	Average	Percentage Change over Previous Period (annual rate)
1965		80.2	4.6	83.3	3.7	74.1	7.1	2.80	0.1
1966		83.2	3.7	85.6	2.8	79.0	6.6	2.79	-0.3
1967		85.2	2.4	86.5	1.1	81.8	3.6	2.75	-1.4
1968		89.3	4.8	89.9	3.9	88.2	7.8	2.39	-13.1
1969		93.9	5.2	93.4	3.9	95.2	7.8	2.39	0.0
1970		100.0	6.5	100.0	7.1	106.7	12.1	2.40	0.4
1971		109.5	9.5	109.0	9.0	118.7	11.3	2.44	1.7
1972		117.0	6.8	114.8	5.3	134.1	13.0	2.50	2.5
1973		126.7	8.3	123.2	7.3	152.1	13.4	2.45	-2.0
1974		147.0	16.0	152.0	23.4	178.8	17.5	2.34	-4.5
1975		182.6	24.2	188.7	24.1	226.5	26.7	2.22	-5.1
1972:	1	113.9	5.8	112.1	4.8	126.4	13.3	2.60	15.8
	2	115.9	7.2	113.5	5.1	130.5	13.6	2.60	0.0
	3	117.8	6.7	115.6	7.6	135.0	14.5	2.45	-21.2
	4	120.7	10.2	118.0	8.6	141.8	21.7	2.36	-13.9
1973:	1	122.2	5.1	119.5	5.2	144.0	6.4	2.42	10.6
	2	125.2	10.2	120.1	2.0	149.6	16.5	2.53	19.5
	3	127.7	8.2	124.2	14.4	154.7	14.3	2.48	-7.7
	4	131.8	13.5	129.1	16.7	159.8	13.9	2.38	-15.2
1974:	1	137.2	17.4	138.3	31.7	159.1 1/	-1.7 1/	2.28	-15.8
	2	145.3	25.8	148.9	34.4	170.1	30.7	2.40	22.8
	3	149.4	11.8	156.1	20.8	185.5	41.4	2.35	-8.1
	4	156.1	19.2	164.9	25.5	200.3	35.9	2.33	-3.4
1975:	1	165.6	26.7	176.0	29.8	209.6	19.9	2.39	10.7
	2	180.7	41.8	186.3	25.5	218.1	17.2	2.32	-11.2
	3	188.7	18.9	193.4	16.1	234.5	33.6	2.13	-28.9
	4	195.2	14.5	199.1	12.3	243.9	17.0	2.04	-15.9
1976:	1	200.9	12.2	206.8	16.4	250.8	11.8	2.00	- 7.6

1/ The decline in average earnings for the first quarter of 1974 reflects a three-day work week associated with a miners' strike.

United Kingdom: Retail Prices and Average Earnings, 1971-1975

(Percentage change over preceding half-year at annual rate)

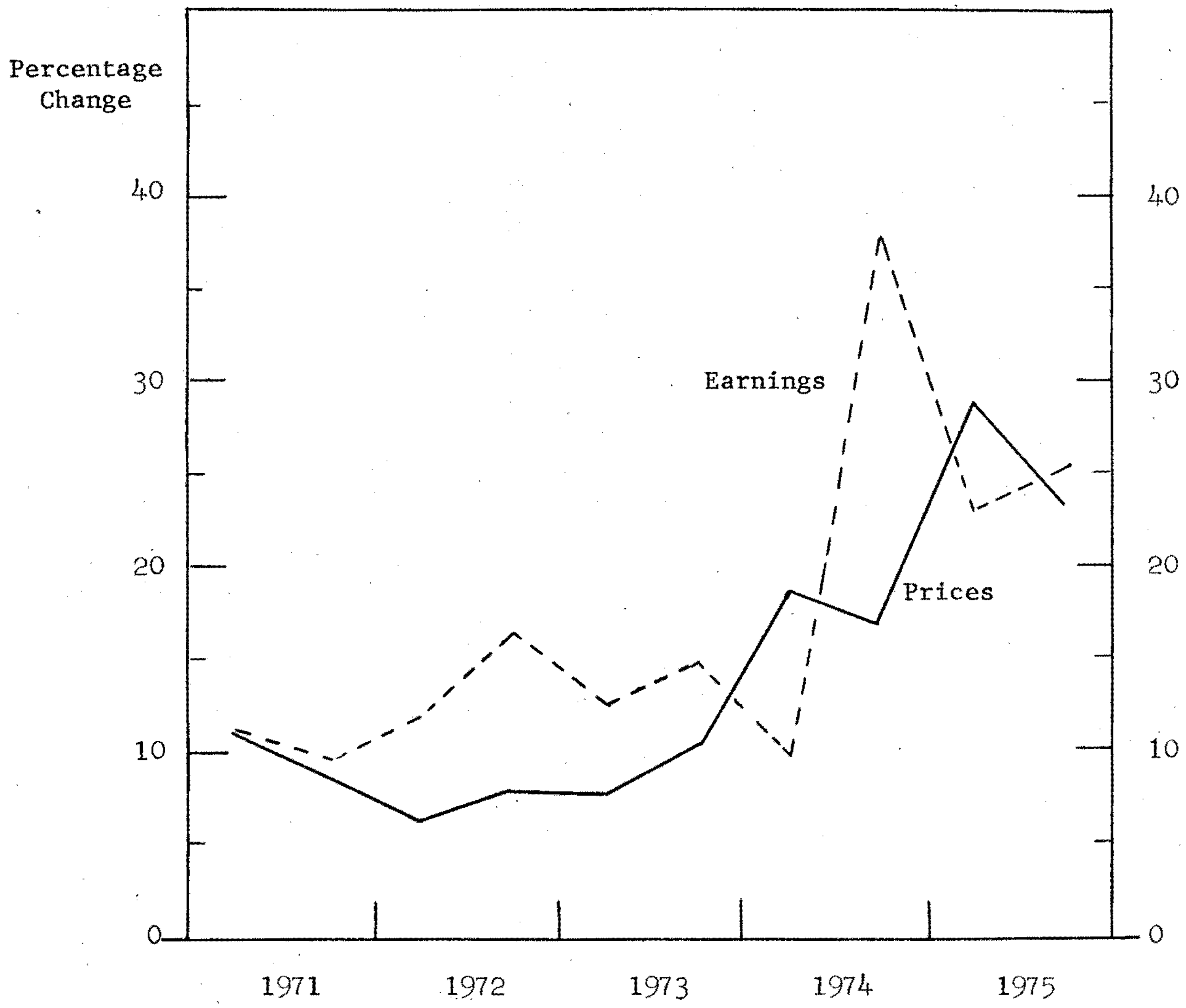

TABLE 2

United Kingdom: Public Sector Borrowing Requirement and Related Data (1965-1975)

Calendar Year	Public Sector Borrowing Requirement (£ Million)	Public Sector Borrowing Requirement as a Percentage of: Nominal GDP	Total Public Expenditure	Total Public Sector Revenue	Total Public Expenditure as a Percentage of GDP	Unemployment Rate
1965	1,205	3.4	8.5	9.3	39.7	1.4
1966	961	2.5	6.3	6.7	40.3	1.5
1967	1,862	4.6	10.6	11.9	43.7	2.3
1968	1,279	2.9	6.7	7.2	44.1	2.4
1969	-466	-1.0	-2.4	-2.3	42.7	2.4
1970	-18	-0.0	-0.1	-0.1	43.1	2.6
1971	1,371	2.4	5.6	6.0	43.0	3.4
1972	2,038	3.2	7.4	8.0	43.6	3.7
1973	4,176	5.8	13.0	15.0	44.9	2.6
1974	6,356	7.8	15.2	17.9	51.6	2.6
1975	10,464	10.3	19.4	24.0	53.1	4.0
Fiscal Years (beginning April 1)						
1975/76	10,546	9.7e				
1976/77	11,962e	9.5e				

e = estimate.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

[redacted]ce Correspondence

Date September 8, 1976

To Chairman Burns

From Charles J. Siegman CJS

Subject: Labor Disputes in the United Kingdom

Attached as requested is a note prepared by David Howard on the elements of contention in the current labor disputes in the United Kingdom.

Attachment.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date September 8, 1976

To Mr. Siegman

From David H. Howard

Subject: Labor Disputes in the United Kingdom

British Leyland

During the last several days, British Leyland -- the mostly government-owned auto producer -- has suffered several strikes that have hindered production. The strikes appear to be unrelated and mostly consist of fairly small groups of workers walking out over some grievance at various plants (see below for examples). However, the group's absence disrupts production and leads to the company's laying-off all or most of the rest of the workforce at the particular plant. Examples of the reasons given for the strikes are: The dismissal of four shop stewards for holding an unauthorized meeting; the geographic location of a new paint shop; extra sickness benefits; and pay-demands in excess of incomes-policy guidelines. The strikes have not been authorized by union leaders. It is estimated that some 20,000 workers in all have been laid off due to the disputes.

Seamen's Union

The results of a ballot of the members of the U.K. seamen's union were announced on September 6. The membership voted -- by a narrow margin -- in favor of industrial action (including the possibility of a strike) to support a wage claim that both the government and the Trades Union Congress believe to be in violation of the guidelines established in the U.K. incomes policy. On September 8, the executive council of the seamen's union voted unanimously for a national strike to begin at midnight on September 11. The strike, involving some 38,000 seamen, will probably halt British shipping.

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date October 22, 1976

To Chairman Burns

Subject: Speeches by Governor Richardson and Chancellor Healey on the U.K. economic situation

From Charles J. Siegman CJS

You may be interested to note the attached Reuters reports on speeches by Governor Richardson and Chancellor Healey on the U.K. economic situation and policy. Governor Richardson calls for a lower British money supply target and suggests consideration of a more rapid reduction in the public sector borrowing requirement. He also suggests that the United Kingdom should look at the experience of other countries especially that of the United States, in formulating monetary targets.

Chancellor Healey rejected calls for a massive deflation of the British economy, but indicated that the United Kingdom may need to move more rapidly towards achieving a balanced economy. He also ruled out the introduction of generalized import controls, but added that the U.K. Government will be watching particular cases where it may be necessary to control low cost imports.

Attachment

cc: Gov. Wallich

NNNN

2148 :RICHARDSON URGES LOWER BRITISH MONEY SUPPLY TARGET:

LONDON, OCT 21 BANK OF ENGLAND GOVERNOR GORDON RICHARDSON CALLED HERE FOR A REDUCTION IN THE GOVERMENT'S CURRENT FISCAL YEAR MONEY SUPPLY (M-3) TARGET OF 12 PCT DURING THE NEXT FINANCIAL YEAR BEGINNING IN APRIL 1977.

IN A SPEECH AT THE LORD MAYOR'S BANQUET FOR BANKERS AND MERCHANTS, RICHARDSON ALSO SUGGESTED IT BE USEFUL TO ADOPT THE US POLICY OF REDEFINING MONEY SUPPLY TARGETS PERIODICALLY.

HE ALSO QUESTIONED WHETHER THE PUBLIC SECTOR BORROWING REQUIREMENT SHOULD BE REDUCED MORE RAPIDLY THAN CURRENCTLY ANTICIPATED.

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REUTER

2153 :RICHARDSON URGES 2 LONDON:

RICHARDSON SAID "WE LIVE AT A TIME OF ALL-PERVASIVE INFLATIONARY DANGER. THAT BEING SO, I THINK IT MUST BE RIGHT TO AIM PUBLICLY FOR A GROWTH IN MONEY SUPPLY WHICH WILL ACCOMMODATE A REALISTIC RATE OF ECONOMIC GROWTH BUT NOT ACCOMMODATE, MORE THAN IN PART, THE RATE OF INFLATION."

THE TARGET FOR THE GROWTH OF M-3 IS CURRENTLY 12 PCT, HE NOTED. "NEXT FINANCIAL YEAR IT OUGHT TO BE LOWER THAN THAT.

"OVER THE PAST FEW WEEKS, BY RAISING INTEREST RATES AND CALLING FOR SPECIAL DEPOSITS,

WE HAVE DEMONSTRATED OUR DETERMINATION TO KEEP WITHIN THE LIMIT SET."

MORE

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2206 :RICHARDSON URGES 3 LONDON:

BRITAIN'S MINIMUM LENDING RATE WAS RAISED TO 15 PCT FROM 13 PCT ON OCTOBER 7. AT THE SAME TIME THE BANK OF ENGLAND MADE A SPECIAL DEPOSITS CALL OF TWO PCT.

RICHARDSON POINTED OUT THAT ONE PURPOSE OF THE MEASURES WAS TO SECURE ADEQUATE OFFICIAL SALES OF PUBLIC SECTOR DEBT TO THE GENERAL PUBLIC

TO AS TO NEUTRALISE THE CREATION OF LIQUIDITY ARISING FROM THE PUBLIC SECTOR DEFICIT AND THEREBY ALSO MODERATE THE RATE OF MONETARY EXPANSION.

"DURING THE LAST MONTH WE HAVE SOLD GILT-EDGED STOCKS ON A MASSIVE SCALE," HE TOLD THE BANKERS.

MORE

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2208 :RICHARDSON URGES 4 LONDON:

RICHARDSON NOTED THE FIXING OF MONETARY TARGETS IS A NEW DEVELOPMENT IN BRITAIN "SO, WHEN FORMULATING OUR MONETARY AIMS FOR THE FINANCIAL YEAR TO COME, IT WILL, I THINK, BE DESIRABLE TO LOOK IN DETAILS AT THE METHODS USED IN SOME OTHER COUNTRIES.

"IN PARTICULAR IT WOULD BE USEFUL TO CONSIDER THE PRACTICE OF THE UNITED STATES UNDER WHICH TARGETS ARE REDEFINED PERIODICALLY, MORE ESPECIALLY IF THIS CAN BE DONE AT TIMES WHEN WE ARE ABLE TO REVIEW THE WHOLE MIX OF POLICY."

MONETARY, FISCAL AND INCOMES POLICY EACH HAVE THEIR PART TO PLAY AND SHOULD FORM A

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2210 :RICHARDSON URGES 5 LONDON:

"AT PRESENT THERE IS, UNDENIABLY, A GROWING QUESTION OVER THE BALANCE BETWEEN OUR MONETARY AND FISCAL STANCES," RICHARDSON SAID.

"THE RECORD LEVEL OF INTEREST RATES REFLECTS IN LARGE PART THE DIFFICULTY OF FINANCING, WITHOUT EXCESSIVE MONETARY EXPANSION, THE PRESENT PUBLIC BORROWING REQUIREMENT."

"THE CURRENT STANCE OF MONETARY POLICY WILL HAVE TO CONTINUE FOR THE TIME BEING. BUT IT IS FAR FROM COSTLESS AND IF INTEREST RATES REMAIN SO HIGH FOR LONG THEY WILL BEGIN TO BE A POWERFUL DETERRENT TO INVESTMENT, ONLY NOW SHOWING SIGNS OF RECOVERY."

MORE

NNNN

2212 :RICHARDSON URGES 6 LONDON:

"IN THAT CASE, AS THE CHANCELLOR (OF THE EXCHEQUER DENIS HEALEY) HAS POINTED OUT, ONE WOULD HAVE TO ASK WHETHER THIS IMPACT ON INDUSTRIAL REVIVAL WAS ACCEPTABLE OR WHETHER PUBLIC SECTOR BORROWING SHOULD NOT BE REDUCED MORE RAPIDLY SO AS TO PROVIDE MORE SCOPE FOR THE BORROWING OF INDUSTRY," RICHARDSON CONTINUED.

BRITAIN'S BALANCE OF PAYMENTS IS AN ADDITIONAL REASON FOR ASKING WHETHER A QUICKER REDUCTION OF PUBLIC BORROWING WILL NOT BE NEEDED,

HE SAID.

"THE BALANCE OF PAYMENTS IS NO DOUBT SET TO IMPROVE, MORE ESPECIALLY OVER A SPAN OF YEARS.

BUT WE NEED EARLY EVIDENCE OF SUCH IMPROVEMENT. IF IT REQUIRES A FURTHER DEGREE OF AUSTERITY TO GUARANTEE THIS, I BELIEVE WE SHALL HAVE NO CHOICE BUT TO ACCEPT IT," RICHARDSON ADDED.

REUTER

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2103 :HEALEY REJECTS CALLS FOR MASSIVE DEFLATION:

LONDON, OCT 21 - UK CHANCELLOR OF THE EXCHEQUER DENIS HEALEY REJECTED CALLS FOR A MASSIVE DEFLATION OF THE BRITISH ECONOMY WHILE STATING THAT THE GOVERNMENT MIGHT HAVE TO INCREASE THE SPEED WITH WHICH IT MOVES TOWARDS THE GOAL OF A BALANCED ECONOMY.

IN A SPEECH PREPARED FOR DELIVERY TO BUSINESSMEN AND BANKERS GIVEN BY THE LORD MAYOR OF LONDON HE RULED OUT GENERALISED IMPORT CONTROLS BUT WARNED THAT THE GOVERNMENT WILL CONTINUE TO WATCH FOR CASES WHERE FURTHER ACTION IS NEEDED TO CONTROL LOW COST IMPORTS.

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2107 :HEALEY REJECTS 2 LONDON:

THOSE SEEKING A FUNDAMENTAL CHANGE OF DIRECTION IN GOVERNMENT ECONOMIC POLICY HAVE FAILED TO THINK THROUGH THE CONSEQUENCES OF WHAT THEY RECOMMEND, HE SAID.

THE OBJECTIVE OF GOVERNMENT POLICY MUST BE THE SPEEDIEST RETURN TO FULL EMPLOYMENT, BUT THIS CAN BE ACHIEVED AND SUSTAINED ONLY IF INFLATION IS MASTERED AND MUST GO HAND-IN-HAND WITH A RETURN TO EQUILIBRIUM IN BRITAIN'S BALANCE OF PAYMENTS, HE SAID.

IN A SPEECH WHICH MADE NO REFERENCE TO BRITAIN'S INTENTION TO BORROW 3.9 BILLION DLRS FROM THE INTERNATIONAL MONETARY FUND, HEALEY SAID "TO CUT THE BUDGET DEFICIT BY FIVE BILLION STG FOR THE NEXT FINANCIAL YEAR (AS SOME COMMENTATORS HAVE SUGGESTED), WOULD REQUIRE CUTS IN SOCIAL BENEFITS AND SUBSIDIES AND A STUPENDOUS INCREASE IN

2117 :HEALEY REJECTS 3 LONDON:

HEALEY CONTINUED ''IT IS NOT POSSIBLE TO CUT EXPENDITURE ON GOODS AND SERVICES BY SO MUCH IN SO SHORT A TIME.

''THE EFFECT WOULD BE TO CUT THE STANDARD OF LIVING BY SOME 10 PCT OR MORE LARGELY THROUGH AN INCREASE IN RETAIL PRICES, AND TO REDUCE OUR NATIONAL OUTPUT BY SOME FIVE PCT COMPARED WITH WHAT IT MIGHT HAVE BEEN.

''THIS WOULD ULTIMATELY ADD PERHAPS ONE MILLION TO THE RANKS OF THE UNEMPLOYED,'' HE SAID. IN SPTEMBER UK UNEMPLOYMENT STOOD AT 1.46 MLN UNADJUSTED OR 6.2 PCT OF THE WORKING POPULATION.

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2130 :REPEAT - HEAL... ...JECTS 4 LONDON:

"THE SPONSORES OF THIS POLICY OBVIOUSLY REGARD THAT AS A PRICE WORTH PAYING FOR WHAT THEY SEE AS FISCAL RECTITUDE," HEALEY SAID.

"BUT I WONDER HOW MANY HERE TONIGHT REALLY BELIEVE THAT THIS COULD HAPPEN WITHOUT WIDE-SPREAD INDUSTRIAL DISRUPTION, A WAGE EXPLOSION, AND A COLLAPSE IN CONFIDENCE THROUGHOUT THE ECONOMY JUST AT THE MOMENT IT IS BEGINNING TO REVIVE. OUR PROBLEMS ARE SERIOUS ENOUGH WITHOUT SUCH SELF-INFLICTED WOUNDS.

"WE MAY STILL HAVE TO INCREASE THE SPEED WITH WHICH WE MOVE TOWARDS OUR GOAL (OF BALANCE IN THE ECONOMY). BUT WE CANNOT HOPE TO MAKE THE DIFFICULT ADJUSTMENTS THIS MAY REQUIRE UNLESS WE CAN MAINTAIN THE SUPPORT AND UNDERSTANDING OF THOSE WHO ACTUALLY PRODUCE OUR NATION'S WEALTH," HEALEY SAID.

MORE

NNNN

2124 :HEALEY REJECTS 5 LONDON:

THE GOVERNMENT IS READY TO MAKE WHATEVER ADJUSTMENTS ARE NECESSARY TO ENSURE STEADY AND SUTAINED PROGRESS TOWARDS THE BALANCE IT SEEKS, HEALEY SAID.

HE POINTED OUT "THERE MUST BE FEW, IF ANY, OTHER COUNTRIES WHICH ARE PLANNING NO INCREASE IN THEIR PUBLIC EXPENDITURE OVER THE NEXT ~~TWO~~ THREE YEARS AND ARE ACTUALLY CUTTING IT IN REAL TERMS NEXT YEAR. (Corr. 2349)

"THE NEW TECHNIQUES WE HAVE ADOPTED FOR ENSURING THAT EXPENDITURE STAYS WITHIN THE LIMITS SET WILL, I BELIEVE, PROVE MORE EFFECT-IVE THAN THIS COUNTRY HAS YET KNOWN. IT HAS ALREADY HAD THE MOST DRAMATIC EFFECT ON LOCAL AUTHORITY EXPENDITURE - HITHERTO THE MOST REFRACTORY OF ALL AREAS OF PUBLIC SPENDING."

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MORE

2128 : HEALEY REJECTS 6 LONDON:

BRITAIN CANNOT AFFORD TO BASE ITS ECONOMIC GROWTH ON AN INCREASE IN DOMESTIC CONSUMPTION, HEALEY SAID.

"WE MUST BASE IT ON EXPORTS, IMPORT SUBSTITUTION AND INVESTMENT. UNTIL WE HAVE ELIMINATED THE DEFICIT ON OUR BALANCE OF PAYMENTS

WE CAN AFFORD NO INCREASE IN PUBLIC OR PRIVATE SPENDING.

"ON THE CONTRARY. LIVING STANDARDS WILL HAVE TO SUFFER A FURTHER FALL BEFORE WE ARE PAYING OUR WAY IN THE WORLD ONCE AGAIN," HE SAID.

MORE

2144 :HEALEY REJECTS 7 LONDON:

WHILE THE GOVERNMENT WILL RESIST THE TEMPTATION TO INTRODUCE GENERALISED IMPORT CONTROLS, HEALEY POINTED OUT THAT IT HAS NEGOTIATED VOLUNTARY RESTRAINTS ON LOW COST IMPORTS WHICH THREATENED PARTICULAR SECTORS OF BRITISH INDUSTRY AND, WHERE NECESSARY, HAS IMPOSED TEMPORARY SELECTIVE IMPORT CONTROLS.

"WE SHALL CONTINUE TO WATCH FOR CASES WHERE FURTHER ACTION IS NEEDED AND WILL NOW BENEFIT FROM CLOSER CONTACT WITH BOTH SIDES OF INDUSTRY IN THIS TASK," THE CHANCELLOR SAID.

REUTER.

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