

British Govt. Tells IMF: 'No Draconian Cuts'

Dec. 17 (NSIPS) — British Chancellor of the Exchequer Denis Healey unveiled the economic package prepared to secure the \$3.9 billion loan from the International Monetary Fund in a speech to Parliament on Wednesday afternoon. The package, which centers around £2.5 billion in cuts over the next two years, is a far cry from the £4 billion in immediate cuts that the IMF was originally reported to be demanding.

British Prime Minister James Callaghan elaborated the international outlook behind the Wednesday "mini-budget" in a speech before the Labour Economic, Finance, and Taxation Association last Monday night in which he called for an international economic summit along the lines proposed by Italian Prime Minister Andreotti last week. Callaghan stressed the "interdependence" of the national economies and warned that there could be no national solutions to economic problems countries such as Britain face. "Our aim," he said, "is to ensure that the international market for our currency will be more stable in 1977 than it has been this year: that our industries will be able to continue with their task of re-equipping and modernising themselves so as to become fully competitive in world markets."

The "IMF" Package

Far from being a severe "belt-tightening" exercise, as international press like the New York Times have characterized it, the budget is a clear repudiation of the Friedmanite solution of massive slashing of government expenditure to meet debt obligations. Healey stressed that "The savings needed are nothing like the draconian scale suggested by some outside commentators....Once again we have avoided mechanical cuts across the board and have not reduced the main social security benefits...." Instead, Healey characterized 1977 as a "year of transition" during which "future progress on the industrial strategy will insure that it is a transition to a much more firmly based prosperity....We must use it to resume the growth in our living standards but also — and in the long run this is more important — to rebuild the capital base of our manufacturing industry."

Specifically, Healey announced a two-year package of £2.5 billion in cuts in government expenditure, £1 billion to be cut in 1977, and a further £1.5 billion in the fiscal year 1978-79. Defense spending cuts will contribute a full 10 per cent of the first year's cuts, with the rest coming from education, housing, and health services. The government expects to sell £500 million worth of shares in British Petroleum, but this is expected to still leave them at least 51 per cent control in the company. Taxes on gasoline and alcohol will be raised by ten per cent in the new year.

In exchange, the IMF is granting the government a loan in tranches: \$1.5 billion to be given next month, and another \$1 billion before the end of 1977. To give added stability to the pound immediately (the government's reserves have been depleted this month through repayment of a \$5.3 billion loan from the U.S. and

European countries) the U.S. Federal Reserve and the West German government have agreed to give Britain short-term "swap" loans of \$500 million and \$350 million respectively.

International Cooperation

Successful negotiation of the IMF loan leaves Callaghan free to pursue his real economic goal, joint trade with the Third World, Arab and Comecon countries.

As a result of top-level discussions this past week between Callaghan and other government officials and the Polish Prime Minister Piotr Jaroszewicz, Britain and Poland have signed a five year trade agreement to encourage bilateral trade between the two countries. According to earlier reports in the British press, chemical production, as well as proposals on EEC-Comecon trade were major topics of discussion between the two leaders. The Polish-British deal follows a record Anglo-Soviet trade deal announced last week for a Rolls-Royce led consortium to supply \$165 million worth of diesel pumping equipment for Siberian oil production.

Great interest has already been generated in London around the idea of a convertible ruble for East-West trade. The latest issue of the Barclays Bank Review highlights "A Role for the Transferable Ruble" and suggests that given the problems of financing trade deficits through traditional currencies, "the transferable ruble might therefore help ease the situation if it were to become a generally acceptable trade currency in the settlement of payments deficits in East-West trade." The article suggests that "any means of lubricating East-West trade from the point of view of Western countries' search for new or larger export markets would be welcome. Similarly, Eastern Europe is concerned to finance its balance of payments deficit with the West in order to continue its growth policies based on imported technology."

An article by the Financial Times East European correspondent David Lascelles on the Narodny Bank decision to use transferable rubles in East-West trade reportedly caused a major uproar during a conference organized by the London School of Economics and the British Defence Department which was discussing multilateral payments in East-West trade.

Healey Gives Background To Economic Package; Stresses Industrial Recovery

The following are extracts from the speech given by Chancellor of the Exchequer Denis Healey to the House of Commons detailing the government's economic package for the IMF loan.

Healey announced that the government would be taking steps to "promote the nation's economic recovery and to

achieve the fastest possible return to a high and sustainable level of employment....The savings needed are nothing like the draconian scale suggested by some outside commentators. I think that there has been a growing consensus among responsible economists that savage and indiscriminate cuts of up to £5 billion would do irreparable damage both to the structure of our social services and to prospects for employment. They would imply a massive and immediate contraction of demand which is the last thing British industry wants to see at present....Once again we have avoided mechanical cuts across the board and have not reduced the main social security benefits...the cuts therefore fall elsewhere..."1977 would be a "year of transition" while Britain was consolidating a strong international trading position. The government's "medium-term programme for national recovery to ensure that the 1980s offer us the prospect of an economy fully restored to balance with high levels of output, employment and real wages and an industry which is vigorous, expanding and profitable...Further progress on the Industrial Strategy will insure that it is a transition to a much more firmly based prosperity....We must use it to resume the growth in our living standards but also — and in the long run this is more important — to rebuild the capital base of our manufacturing industry."

In the Letter of Intent to the IMF, Healey stressed that the "two pillars" on which the government's position leaned was the social contract with the trade unions and their industrial strategy, which would have to be spread over two to three years "if it is not to produce unacceptable social tensions and levels of unemployment." Healey concludes that the government's objective was to attain a "sustainable growth in output, employment and living standards based on a strong expansion in net export and productive investment....The Government sees this strategy as the basis for a 3-year programme which will firmly establish the recovery of the nation's economy and will also allow the U.K. to make its proper contribution to the stability and prosperity of the world."

Callaghan Calls For World Economic Summit

Prime Minister Callaghan issued a call for the convening of a world economic summit during his address to the Labour Economic, Finance and Taxation Association last Monday night, Dec. 13. Callaghan stressed the need to create "a healthy economic base" since international economic problems were so severe that action by individual nations would not be adequate. "They will require a combined effort," he said, "And for that reason I publicly support the proposals for a world economic summit so that these matters can be discussed." Callaghan further stressed that such an international approach was necessary to solve Britain's problems. "Our aim is to ensure that the international market for our currency will be more stable in 1977 than it has been this year: that our industries will be able to continue with their task of re-equipping and modernising themselves so as to become fully competitive in world markets."

Polish Delegation In Britain For Trade Contacts E-W Relations

Polish Prime Minister Piotr Jaroszewicz arrived in London Dec. 15 for a three-day visit with British Prime Minister James Callaghan and representatives of the business community. According to coverage in the British press, trade and East-West relations are the major topics of discussion, and the Dec. 14 Guardian reports that following his meeting with Soviet Prime Minister Kosygin, Jaroszewicz will be pushing Callaghan to take a favorable attitude towards Comecon trade proposals with the European Community. On trade deals, Callaghan told Polish press representatives that he expects cooperation between Britain and Poland to improve in the fields of construction, metallurgy, food processing and aircraft.

Trade Unions Warn Callaghan On Spending Cuts

Leaders of eight state sector unions joined together on Monday, Dec. 13 to wage a joint battle against cuts in public sector spending. Warning the government that the severity of their action would depend on the cuts announced by Chancellor of the Exchequer Denis Healey on Wednesday (Dec. 15), the unions announced that they would convene a national conference in March 1977 to map out a campaign to educate the public on the effects of cuts in social services.

TUC General Secretary Len Murray warned the Callaghan government on Monday, Dec. 13 that support from the trades unions could not be taken for granted if a severe austerity program was introduced to satisfy conditions for a loan from the International Monetary Fund. "The major question for us," he said, "is what will be the impact on the industrial strategy and the joint recovery plan."

Defense Chiefs Call For No Cuts In Defense Spending Backed By Atlantic Committee

The British Chiefs of Staff exercised their traditional right to demand an audience with the Prime Minister last Friday, Dec. 10 to protest the scheduled cuts in defense spending as part of the government's austerity package for the IMF loan. The Chiefs of Staff called for the meeting, an action which was "unprecedented in recent years" upon returning from the NATO meeting in Brussels where the U.S. insisted that all countries escalate their military expenditure to counter the Soviet threat to NATO, and it was felt, according to the Dec. 11 London Times that "the Services' capability to buy modern equipment will be further reduced" by the government's spending cuts.

Protest over the cuts also came from the British Atlantic Committee in a letter to the editor of the London Times which warned that the cuts would make it impossible for the British government to carry out the pledge of NATO Council ministers "to do their utmost to ensure that the necessary resources would be made available to maintain and improve their force contributions for the common defense."