

c.c. Fergusson, FCO.



10 DOWNING STREET

Sir J Hunt  
Wade House, Tey  
Sir J Hunt (again)  
22.7.76

From the Private Secretary

Mr J. file

9 July, 1976.

N.B. First page only of the enclosure  
was sent to Sir P. Rensbottom.

Prime Minister's Meeting with President Ford  
in Puerto Rico on Sunday, 27 June

pa. 14/7

During the stop-over at Dulles Airport on the evening of 28 June, you raised with Ken Stowe and myself the possibility of seeing a record of the Prime Minister's meeting with President Ford on the morning of 27 June in Puerto Rico. I am sorry not to have written earlier about this.

As you know, the meeting was an entirely private one, and I am not therefore able to send you a record. I am, however, enclosing a copy of a note which the Prime Minister used as the basis of his remarks to the President on the UK economy, and which he left with the President.

In expanding on this note the Prime Minister made the point that economics and politics could not be separated. He expressed the hope that this point would be kept in mind when our friends tried to move us faster along the road towards what they saw as a better balance between our public and private sectors. He knew that our Public Sector Borrowing Requirement was too high, and we were going to reduce it. He would be discussing this shortly with his Cabinet colleagues.

The Prime Minister told the President that he knew that time was short and that the \$5.3 billion facility was for six months only, after which we might have to go to the IMF. The Prime Minister expressed the hope that he would be able to carry through policy changes which would make any such approach unnecessary or, if necessary, smooth and calling for no new conditions. More generally, the Prime Minister emphasised to President Ford his own determination and that of the Chancellor of the Exchequer to move with all possible speed towards our goal of beating inflation and achieving a strong, sustainable and balanced recovery.

The President responded appreciatively and sympathetically to this, and spoke very warmly of his wish to help, and to maintain his co-operation with the Prime Minister personally. It is, I think, worth noting that on the only morning which President Ford had free during the Puerto Rico Conference, he devoted an hour and a half to talks, first with the Prime Minister alone and then with the Chancellor of the Exchequer. During the latter part of the meeting, Bill Simon was also present.



All this is for your personal information, and the Prime Minister particularly asks that you should not refer directly to what passed between him and President Ford in conversation with anyone else in the Administration or indeed with the President himself.

After the meeting, the Prime Minister told us that he thought it would be useful if he were to send a follow-up message to the President in two weeks or so. We shall, of course, ensure that you are kept informed of any developments.

**P. R. H. WRIGHT**

His Excellency the Hon. Sir Peter Ramsbotham, K.C.M.G.



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file

## AIDE MEMOIRE FOR PRIME MINISTER'S MEETING WITH PRESIDENT FORD

1. The UK economy has a great deal going for it - slow, sustained recovery since last summer led by export demand. Latest export prospects survey shows we expect 11% higher volume this year.
  - investment in manufacturing still sluggish but strong recovery of possibly 15% next year
  - imports will rise during the upswing of the cycle, but the steep increase in April and May included basic materials and semi-manufactures needed to increase production. But note North Sea Oil should be worth 1 billion pounds this year and by 1980 we should be self-sufficient in oil.
  - current account deficit was running at an annual rate of 912 million pounds in the three months to May, well below 1702 million pounds of last year.
2. Great achievement is in the partnership we have developed with organised labour, the social consensus. Importance not sufficiently appreciated abroad. Nobody thought last year's 6 pound policy would stick. It did. Against a background of 1 and a quarter million unemployed (5.4% of labour force) - a very high figure historically - it is our great political achievement that we have just agreed a second tight but entirely voluntary pay agreement between unions, employers and Government, involving a sharp reduction in real income. Results so far: RPI increase for 6 months to May was 15.2% at annual rate compared with last June's peak, when over 6 months it reached a rate of 37 and a half per cent. Relationship with the Unions also paying off in other ways: days lost in strikes were lower in 1975 than in any year since 1969. Even better this year.
3. This achievement is itself threatened by lack of confidence shown by markets - 15% fall in value of sterling by first week of June as compared with beginning of March. Retrieved in part by 5.3 billion dollars facility. We are grateful for major part played in this by the US Treasury and Fed.
4. Our social consensus is not only an economic factor. It is a political factor of immense importance, a guarantee of political stability. When there is any temptation to mention Italy and the UK in the same breath, remember this.



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5. Economics and politics cannot be separated. Point that must be kept in mind when well meaning attempts are made by our friends to move us faster along road towards better balance between our public and private sector. We know our PSBR is too high. We are going to get it down. We know that public expenditure makes too much demand on our resources. We have already cut it back and intend to cut it back further.

6. We know that time is short - the 5.3 billion dollars is for 6 months. We may have to go to the IMF then. My hope is that we should be able to carry through policy changes which will make the approach unnecessary or if necessary, smooth and calling for no new conditions.

[7. To achieve that - to reinforce our social consensus, thereby to reinforce our political stability - our need is encouragement, even a little praise for what we have achieved. The rather pointed criticism of the slow pace of our adjustment which emerged around the OECD Ministerial Meeting last week (Simon and Parsky) did not help, well-meaning as it doubtless was. The British are not a people who respond to external goads; on the contrary we are still a little prone to xenophobia; and this can be aroused if our friends push us too hard.]

8. I know I can say this to you frankly. In doing so I want to stress my own determination, and Bill Simon knows that Denis Healey shares this, to move with all possible speed towards our goals of beating inflation and achieving a strong, sustainable and balanced recovery.

Derek Mitchell

27 June 1976