

NOTE FOR THE RECORD

Doctor Arthur Burns called on the Prime Minister at 1430 today. They had a general discussion, but Doctor Burns made the following specific points:

1. He had a great admiration for the Government's policies, but they would take time to have effect. This meant that if the Conservative strategy were to succeed, the people would have to show patience.
2. Referring to the Government's monetary policy, he said that interest rates would probably have to be higher than the rate of inflation if they were going to have any effect on credit creation. If interest rates were lower than the inflation rate, there was an incentive for people and businesses to borrow. There was a tendency both in the USA and the UK for people to ignore the fact that inflation had severely eroded, or eliminated, the real level of interest rates.
3. Even a successful monetary policy would not in itself bring about the fundamental changes that were needed. It would certainly help; but a lot more was needed besides.
4. Doctor Burns said that the US monetary authorities had rather lost control of the real underlying monetary aggregates because of the development of "financial technology". By this he meant credit creation outside the banking system. He understood that there was a similar problem in the UK, but it had not gone as far as in the US. It was essential that the authorities should develop better monitoring of these extra-Bank operations. Otherwise, control of the various Ms would not be effective in bringing down the inflation rate. Control of money in its broadest form was essential.

27 September 1979

TL.
Copy on Master set

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USA



Foreign and Commonwealth Office

London SW1A 2AH

25 September 1979

Dear Michael,

As Arthur

Call on the Prime Minister by Doctor Arthur Burns

/ I attach a personality note on Dr Arthur Burns and
/ a Treasury background note on the US economy for use by
the Prime Minister at her meeting with Dr Burns at
2.30 pm on 27 September.

yours ever

Rodric Lyne

(R M J Lyne)
Private Secretary

M O D'B Alexander Esq
10 Downing Street
LONDON

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DR ARTHUR F BURNS

1 Born in 1904 in Austria, Burns was taken to the USA at the age of 10. Became an academic economist teaching at Columbia and Rutgers universities. From 1953 to 1956 Chairman of President Eisenhower's Council of Economic Advisers and a member of the President's Advisory Committee on Labour-Management Policy under the Kennedy and Johnson Administrations. From 1969 to 1970 Counselor to President Nixon. In 1970, he became Chairman of the Federal Reserve System, a position he retained to 1978.

2 Although Dr Burns now holds no official appointments he is an active member of the American Enterprise Institute, a prestigious Republican-backed think-tank in Washington and a consultant to Lazards' Bank. He will be delivering this year's Per Jacobsson lecture to IMF Ministers in Belgrade.

3 A Democrat for most of his life Burns changed loyalties during the Eisenhower years. He has had considerable government experience in addition to being a leading academic. A particular interest has been the study of business cycles and one of his major achievements was forecasting the 1960/61 recession.

4 Dr Burns is a conservative economist - an opponent of unchecked growth of the Federal Government's role in the economy; but he does not subscribe to the theory that the Federal Budget should be balanced every year, favouring balance over a number of years. Burns is very much of a pragmatist and in 1970 spoke out strongly in favour of a wages and prices policy despite his previous opposition to this strategy.

5 Dr Burns was at earlier times well in control at the Federal Reserve and had a high reputation. By the time he ended his term (January 1978) he had become a harsh public critic of the Carter Administration's economic policy and had fallen foul of Congress. Though supported by business and banking communities he was strongly opposed by many leading democrats, blacks and union leaders as a symbol of conservative economic policies.

6 Dr Burns is married to the former Helen Bernstein and he has two sons, David and Joseph.

September 1979

US ECONOMY

Growth

Slow first quarter growth, followed by drop in GNP in 1979 Q2 by 2.4% (a.r.). Main cause was fall in consumer spending as squeeze on real income bites. Leading economic indicators' index fell in June and July. Industrial production up by $\frac{1}{2}$ per cent in Q2 but fell slightly in July. Unemployment rate 5.6 per cent in June (5.9 per cent in December 1978). Implies drop in productivity.

Inflation

Upward acceleration of consumer prices continues. Petrol price rises are main cause of recent rises. Index rose 11.4 per cent in twelve months to July. Administration have abandoned 7.5 per cent target. Rumours that phase two of severely discredited wage and price policy will include some relaxation of guidelines.

Current account

1979 H1 showed considerable improvement over corresponding period in 1978 with deficit of estimated at £1.2 bn compared to £10.3 bn. Reflects better export performance and slow import growth.

Monetary policy

More restrictive stance evident since appointment of Volcker to Fed. Discount rate raised to $10\frac{1}{2}$ per cent in two stages, Fed Funds now trading at $11\frac{1}{4}$ - $11\frac{3}{8}$, prime rates likely to rise to $12\frac{1}{2}$ per cent. M1 growth to end-August slightly above $1\frac{1}{2}$ per cent - $4\frac{1}{2}$ per cent target range, M2 within 5-8 per cent range. Volcker has declared there is no prospect of monetary easing until inflation and monetary growth slow.

Outlook

Consensus from US forecasters (Budget Office, Fed, Council of Economic Advisers) on negative GNP growth through 1979. Council predict $\frac{1}{2}$ per cent fall, Fed and Budget Office nearer 2 per cent. Fed also warn of GNP fall again in 1980.

26 FEB 1979





USA

10 DOWNING STREET

From the Private Secretary

28 August 1979

B/F 24.9.79

The Prime Minister has agreed to see Mr. Arthur Burns on Thursday 27 September at 2.30 p.m.

I would be grateful if you would let us have a brief to reach this office not later than Monday 24 September.

CAROLINE STEPHENS

J.S. Wall, Esq.,
Foreign and Commonwealth Office.



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10 DOWNING STREET

PRIME MINISTER

Arthur Burns is coming over here at the end of September.

I attach a note from Stephen Wall in the Foreign Office saying that they see no reason why you should not see him. Would you like me to fix up an appointment?

A handwritten signature in blue ink, appearing to be 'CJ'.

*Yes please
rob.*

24 August 1979

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Foreign and Commonwealth Office

London SW1A 2AH

21 August 1979

Jean Bryan,

Mr Arthur Burns

Caroline Stephens wrote on 13 August about the visit to London of Mr Arthur Burns. We see no objection to the Prime Minister's receiving him when he is here, especially as she knows him.

The Prime Minister should, on the other hand, be aware that when Mr Burns left the Federal Reserve Board he was not on the best of terms with President Carter. He apparently would have liked to have served as Chairman for a further term. But because of disagreements over the direction of economic policy, President Carter did not re-appoint him. There was, however, no public row and Mr Burns' disagreements with President Carter do not constitute a reason for the Prime Minister to refuse to receive him.

Yours ever,
Stephen

J S Wall

B G Cartledge Esq
10 Downing Street

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UNITED STATES DEPARTMENT OF JUSTICE

FEDERAL BUREAU OF INVESTIGATION

WASHINGTON, D.C. 20535

21 AUG 1979



TO: SAC, NEW YORK (100-100000)

FROM: SAC, PHOENIX (100-100000)

SUBJECT: [Illegible]

RE: [Illegible]

PHOENIX TELETYPE TO NEW YORK, AUGUST 20, 1979.

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FILE

VLB →

Mr. A. BURNS
24/8

13 August 1979

Arthur Burns, the former Chairman of the Federal Reserve Board, has made a request to see the Prime Minister during his visit to this country between 25 and 29 September.

Mrs. Thatcher does know Mr. Burns and has seen him privately in the past, but I would be grateful to have your advice before putting it to her.

CAROLINE STEPHENS

Paul Lever, Esq.,
Foreign and Commonwealth Office.

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