Goodbye, Great Britain? The Press, the Treasury, and the 1976 IMF Crisis

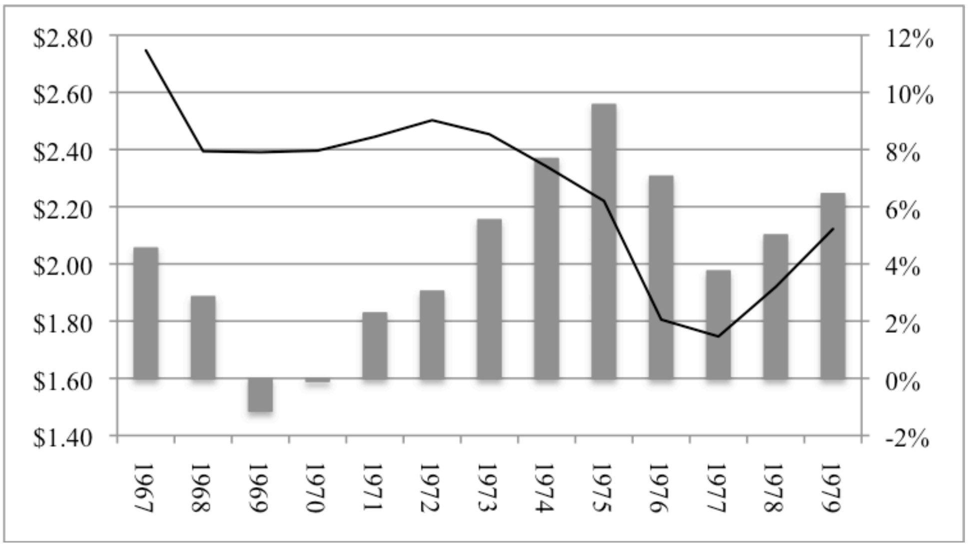
On 28 September 1976, hearing that sterling had fallen to a new low, the Chancellor of the Exchequer, Denis Healey, turned back from Heathrow Airport, returned to the Treasury, and announced that Britain was applying to the International Monetary Fund (IMF) for its largest ever loan.[1] Thus began the denouement of a crisis that had been playing for six months, ever since a botched devaluation in early March had taken the pound below $2 for the first time.[2] In certain respects, 1976 was just another in the long series of sterling crises that punctuates post-war British economic history. With a chronic shortage of foreign currency holdings, sterling was prone to speculative attack, and Healey's announcement came shortly after the Bank of England experienced its largest ever loss of reserves.[3] Nor was there anything new about turning to the IMF for assistance. Britain drew from the Fund on 10 separate occasions between 1947 and 1976.[4] But while the crisis may have started with 'the familiar tolling of the sterling bells', 1976 was different.[5] When Healey turned back, sterling was under attack because the British government had reached the limits of its credit, both at home and abroad. The crisis was resolved, not by further devaluing the pound, as in the past, but by providing Britain's creditors with the reassurance that, under the IMF's supervision, the government would finally get its borrowing under control. In modern parlance, 1976 was a sovereign debt crisis.

The 1976 crisis was also different because, to an unprecedented degree, it played out in and through the British press.[6] The broadsheets provided the forum for an academic debate that helped to bring a reluctant Cabinet to a realistic negotiating position with the IMF by undermining the alternative strategy of widespread import controls. The press also helped to usher the negotiations to a practical conclusion that ensured the government's survival by providing the outlet for extensive high-level leaking and briefing. The IMF mission flew back to Washington in December 1976, having extracted far less than it had expected in return for a $3.9 billion loan and its 'good housekeeping seal of approval'. This owed much to the role of the British press over three climactic months in 1976.

Prologue

While the origins of the 1976 crisis lie buried in decades of British relative economic underperformance, two decisions taken in the last weeks of the Heath government stand out. The first was an agreement to link wages to the Retail Price Index from November 1973. Having presided over the monetary explosion of 1972–73, Heath thus 'hardwired' inflation into the UK economy just before OPEC quadrupled the price of oil. The second was the decision to 'tunnel through' the oil shock to North Sea oil revenues with increased government borrowing. Financing the increased deficit rather than deflating enjoyed cross-party support, as well as the approval of the IMF.[7] Indeed, Edmund Dell, Secretary of State for Trade at the time, believes that by encouraging oil importers to finance their enlarged current account deficits with borrowing, the IMF provided the government with an alibi for not deflating.[8] But not every industrial nation could count on becoming an oil exporter within six years. As the former Permanent Secretary to the Treasury Sir Douglas Wass explains: 'the borrowing programme the Bank and Treasury … embarked upon in 1974 was strictly for long-term credit intended to take care of the financing needs until North Sea Oil revenues began to flow and the current balance of trade improved'.[9]

Figure 1: Average annual sterling value in US dollars (LHS) and PSBR as a percentage of GDP (RHS), 1967–79



Sources: *Bank of England Quarterly* Bulletin and N.H. Dimsdale, 'British Monetary Policy Since 1945', in N.F.R. Crafts and N.W.C. Woodward (eds.), *The British Economy Since 1945* (Oxford, 1991).

'Tunnelling through' also involved borrowing dollars.[10] In December 1975, Healey arranged to borrow a total of $2.3 billion from the Fund.[11] By then, the Public Sector Borrowing Requirement (PSBR) estimate had risen to £11.8 billion (11 per cent of GDP), with a further £12.4 billion anticipated in 1976/77.[12] The Fund's Managing Director told the Chancellor it was now 'essential to secure cuts in public expenditure which would produce substantial reductions in the PSBR over the next few years'.[13] However, the 1975 loan facilities came with low conditionality, and Healey was able to borrow against a vague promise to limit the PSBR to £12 billion in 1976/77.[14] Nonetheless, IMF officials had clearly signalled that further borrowing would be conditional upon a lower PSBR, something they confirmed five months later during the routine annual consultation.[15] Summing up the May 1976 consultations, Wass concludes: 'there could have been little doubt in the minds of UK policy makers that if recourse had to be made to the IMF for help later in the year the terms would involve a big fiscal policy change'.[16]

'Tunnelling through' rather than deflating contributed to UK inflation of nearly 25 per cent in 1975. While this exceeded the OECD average, the pound remained remarkably stable, propped up, in part, by the reflux of sterling from those newly enriched oil producers with historical ties to the UK.[17] While increased sterling balances were welcomed as a short-term expedient, they created problems elsewhere. Higher UK inflation meant domestic costs outstripped global costs. British manufacturers needed a weaker pound if they were to produce the desired export-led recovery. Exchange rate policy in 1975 was therefore, opportunistically and discreetly, to depreciate sterling to maintain 'constant competitiveness', while 'creaming off' foreign currency whenever the pound was strong, i.e. selling on a rising market. As the IMF's European Director explained: 'the Chancellor has also to consider the effects of depreciation on the large holders of sterling. In this area, the tactics are to avoid the appearance of seeking a depreciation but rather to accept depreciation, after the expenditure of some reserves, whenever market pressures are strong.'[18] If the international holders of sterling realized what was afoot they could, in theory, demand repayment in dollars at a moment's notice. With the reserves standing at a fraction of the sterling balances, the Bank did not have the money to repay.[19]

In 1968, the previous Labour government had persuaded the official holders to keep a portion of their reserves in sterling by writing dollar-price guarantees. The need for continued financing after the oil shock saw the guarantees extended beyond their scheduled expiry in December 1973. This came at a cost that the Treasury was unwilling to bear indefinitely. And, as Samuel Brittan pointed out in the *Financial Times*, the Treasury was 'more concerned for our competitive position than with allaying the nerves of foreign holders of sterling'.[20] With the guarantees finally expiring in December 1974, the sterling balance holders had to rely on the willingness and ability of the British monetary authorities to maintain the value of the pound. In 1975, they gave fair warning that they would run down their balances if sterling weakened.[21] The fulfilment of this warning after March 1976 helped to transform a sterling crisis into a sovereign debt crisis.

The botched devaluation

On 1 March 1976, with sterling still stubbornly high, the Chancellor and the Governor of the Bank of England decided to force the pace, albeit they had yet to agree the modalities of how the pound might be lowered without dislodging the sterling balances.[22] Two days later, Bank and Treasury officials met to discuss tactics.[23] A step change was ruled out as too risky.[24] Officials preferred the subterfuge of an 'induced slide'. This might be achieved through more aggressive creaming-off, and/or by lowering the interest-rate differential against the dollar. The key was 'to avoid exposing that the government was directly responsible'.[25]

Somewhat unexpectedly, 'D-Day' arrived the next day.[26] On 4 March, Bank dealers complied with Treasury instructions 'to resist robustly any further appreciation whatsoever' by aggressively creaming off $282 million.[27] As the Bank's chief foreign exchange dealer explained: 'in order to counter the Treasury's near pathological fear of a narrowing effective depreciation, we came back as sellers of sterling at lower levels on a number of occasions'.[28] This was interpreted by currency dealers as the Bank selling on a falling market, something it was pledged never to do. When sentiment turned against sterling in the afternoon, Bank dealers withdrew until the last hour of trading:

> In normal circumstances, with such a swift reversal, we should have begun to buy a little sterling almost immediately. Had we done so immediately however and been successful, those elements in the Treasury anxious for further depreciation could well have accused us of trying to stabilise the effective depreciation at 30.1% [below the 1971 value].[29]

The next day, the Bank followed through with a planned 25 basis point reduction in Minimum Lending Rate. After aggressively creaming off on 4 March, this was the second phase of the strategy to lower the pound by narrowing the interest rate differential with the dollar. The market was in no doubt that there had been a change in tactics and took sterling below $2 for the first time. As the *Financial Times* pointed out: 'the fall was in line with the Government's known long-term policy of allowing sterling to fall to reflect the difference between inflation rates in the UK and other countries in order to maintain the competitive position of UK exporters'.[30] Over the next fortnight, the Bank spent almost 20 per cent of its precious reserves stabilizing the rate around $1.92.[31] With a continued balance of payments deficit to finance and the falling pound triggering the predicted withdrawals of the sterling balances, each dollar spent made another approach to the IMF more likely. Commenting on the pound's weakness, the *Daily Telegraph* warned: 'Only painful cuts in public expenditure will convince the world that we mean to live within our real income. Probably we shall have to wait until the Government is forced to seek a major loan from the IMF. Then there may well be stringent terms on public spending.'[32]

Ironically, as a direct result of botching the devaluation in March 1976, Britain was thrown one last lifeline before the increasingly likely session with the Fund. The Europeans were annoyed at the British for instigating the exchange rate volatility that saw the French franc ejected from the European monetary 'snake' on 15 March.[33] Britain had reneged on an agreement, signed at Rambouillet the previous November, that the leading central banks would cooperate to 'counter disorderly market conditions or erratic fluctuations in exchange rates'.[34] When sterling reached a new low in early June, the leading industrial nations invoked 'the spirit of Rambouillet' to assemble a $5.3 billion credit facility for Britain.[35] However, the loan came with conditions. There was a presumption on the part of the creditors that the government would use the breathing space to cut the PSBR.[36] If not, Healey would be forced to repay any amounts outstanding after six months with a high conditionality loan from the IMF. Fay and Young, in a series of *Sunday Times* articles from 1978, make great play of this 'IMF take-out' (replacement loan), suggesting that the Under-Secretary of the US Treasury, Ed Yeo, dispelled the euphoria that greeted the credit facility in London by imposing the take-out on a reluctant Prime Minister and Chancellor.[37] However, IMF take-outs were a long-standing feature of multilateral credit arrangements.[38] The clause was no surprise to the Governor, Gordon Richardson, who reassured his Federal Reserve counterpart, Arthur Burns, from the outset that any drawings would be 'fully covered by our undrawn tranches at the IMF'.[39] American officials had been telling the British for months that drawings would require an IMF take-out and, in case Healey had forgotten, Johannes Witteveen, Managing Director of the Fund, reminded him during a telephone conversation on 3 June.[40] Healey's claim that the $5.3 billion facility came 'with no strings attached' was disingenuous.[41] It was precisely the 'strings' that marked the transformation from a sterling crisis into a sovereign debt crisis that would be resolved only by reducing the PSBR.

The reactions of the different financial markets to the loan facility were revealing. With the Bank able to call upon an additional $5.3 billion, the sterling market entered a period of relative calm. The gilt market went on a buyers strike. As *The Times* pointed out, all Healey had done was 'borrow' another six months in which to reduce the PSBR before cuts were imposed by the IMF.[42] This he set about doing, extracting £1 billion of cuts after an 'appallingly difficult' round of Cabinet meetings.[43] Combined with a £1 billion rise in National Insurance contributions sprung upon ministers at the eleventh hour, this reduced the PSBR estimate for 1977/78 to £9 billion. Despite heavy briefing of the press before the announcement, the package was poorly received. There was a sense that Healey had fluffed his last opportunity to cut spending unilaterally and the markets resumed their slide. On 9 September, following the publication of a £905 million drop in the sterling balances, and with no prospect of repaying what had already been drawn on the loan facility, the Bank was instructed to 'let the rate go'.[44] The next day, the Permanent Secretary informed Healey that another visit to the Fund was inevitable.[45]

The battle of the PSBR

There are several accounts of the often fraught negotiations that preceded the IMF's $3.9 billion loan in December 1976, with Sir Douglas Wass providing the most detailed.[46] There were three core issues: the 'correct' level for sterling, acceptable monetary targets, and an appropriate level for the PSBR in 1977/78.[47] Since all involved in the negotiations believed that export-led growth would require a 'competitive' pound and Healey had already announced a monetary target in July, the PSBR was the most contentious issue.[48] The Prime Minister, James Callaghan, claims that his fallback position was always the £9 billion figure agreed by Cabinet in July.[49]

Healey's position changed over the course of the negotiations, reflecting the split within the Treasury between the Home Finance Department, in favour of minimal cuts, and the Overseas Finance Department, more in tune with international opinion, which argued for cuts of up to £3 billion. The IMF's initial negotiating position had emerged during preliminary discussions in July.[50] Fund economists were concerned that a PSBR above £6.5 billion might 'crowd out' the private sector borrowing required to finance export-led growth, and this was the figure communicated to the Treasury.[51] Arcane negotiations about the correct level of the PSBR were usually conducted behind closed doors and reported, if at all, in the specialized financial press. However, such was the sense of crisis in the autumn of 1976, with the survival of the government in real doubt, that a public debate erupted within the broadsheets. It is worth, therefore, briefly sketching the positions taken by the quality press on the PSBR. *The Times* wanted £5 billion of cuts in 1977/78, with further reductions leading to a Budget in 'near balance' by 1979/80.[52] The *Daily Telegraph* and *The Economist* took broadly similar positions.[53] The *Financial Times* argued for a minimum of £2 billion, while *The Guardian* was closest to the final outcome with its call for just £1 billion of cuts.[54] By the time the package emerged, after several weeks of tense negotiations in Whitehall, most of these positions had shifted, partly as a result of a lively academic debate that took place within the letters page of *The Times*.

The academic debate

On 2 December *The Times* political columnist, Ronald Butt, wrote:

> The most amazing feature of the debate on the economy and the IMF loan which has preceded the assembly of the package on public spending and taxation now put by Mr Healey in front of the Cabinet is the extent to which the argument has been carried on, in, and (which is not quite the same thing) through the press.[55]

The debate 'in' the press involved a theoretical battle between several of Britain's leading economists. The catalyst was a *Times* editorial, 'Programme for Economic Stability', published on 20 September.[56] As well as an immediate £5 billion cut in public expenditure, the newspaper called for a series of declining money supply targets, a 'cleanly' floating pound, and indirect tax rises. The Cambridge economist and former Treasury adviser Wynne Godley responded a week later, calling the article ‘a useful stimulus to the public discussion, which has so far been curiously impoverished’.[57] Godley was a founder of the New Cambridge School, which, disillusioned with the practical results of devaluation, was then advocating a 1930s-style General Tariff behind which British industry could be nursed back to health. He believed *The Times* programme to be ‘dangerously mistaken’, with politically unacceptable consequences for unemployment. Only ‘large scale nonselective industrial protection’ would solve Britain’s endemic balance of payments problem. This drew out the monetarists. Brian Griffiths of the London School of Economics (LSE) and Geoffrey Wood of City University argued, from a largely theoretical standpoint, that protection would simply divert resources to unproductive sectors of the economy and raise the exchange rate.[58] This would have negative consequences for export volumes and unemployment. On 11 October the former IMF economist John Williamson joined the fray, labelling protection ‘the latest, and silliest, example of the tendency to search for simple answers to complex problems that has left such unhappy scars on British economic policy’.[59] This prompted a withering response from the Cambridge economist (and former Treasury adviser) Lord Kaldor, for whom Williamson argued ‘as if Sir Roy Harrod, Lord Keynes and other distinguished economists of the twentieth century had never existed’.[60]

The debate centred on the merits of protection versus devaluation, particularly on the contribution of the 1967 devaluation to the eventual improvement in the current account in 1969. Godley and Kaldor believed it had contributed little. Rather, it was tight fiscal and monetary policy that had generated the surplus by restraining domestic demand. The Oxford economists John Flemming and Maurice Scott disagreed. Devaluation had failed because of supply-side constraints. Remove these, they argued, and devaluation would work.[61] They were supported by another former Chief Economic Adviser, Sir Alec Cairncross, also by then at Oxford, who was convinced that devaluation would work ‘in the end’.[62]

With views sufficiently entrenched to rule out a consensus, the debate shifted to the PSBR. The public sector deficit might be the proximate cause of the balance of payments deficit, as the New Cambridge economists argued, or it may work through the private sector, by generating a higher private sector surplus, as the ‘international monetarists’ of the London Business School (LBS) believed.[63] Either way, all were agreed that the PSBR was too high. The question was how far and how fast it should be reduced. In his 21 October Mansion House speech, Healey argued that cuts on the scale proposed by *The Times* would reduce the standard of living by at least 10 per cent, lower output by 5 per cent, and add a million to the ranks of the unemployed.[64] *The Times* reaffirmed its position, prompting an intervention from another former Treasury adviser, Michael Posner, recently enough departed to represent the 'Treasury view'.[65] While 'the public must by now be a little fed up with economists' theoretical posturings', Posner nonetheless felt *The Times* programme merited a considered response.[66] An immediate cut of £5 billion was 'merely the Treasury doctrine of 1925'.[67] It would take years rather than months for the private sector to fill the gap in demand. In any event, the newspaper had given little indication of where the axe would fall, something *The Times* rectified on 15 November with a detailed programme of cuts.[68]

By the middle of November, negotiations in Whitehall between the Treasury and the IMF were deadlocked. This provided the context for a detailed intervention from seven economists (the 'seven'), led by Wilfred Beckerman of Balliol College, Oxford, who sought to chart a course between the deflationists and the protectionists.[69] As the *Financial Times* pointed out, the group boasted impressive establishment connections and, together, comprised 'an almost archetypal [Treasury] Economic Adviser'.[70] Their powerful case against rapid deficit reduction and protection in favour of further devaluation provided 'the warmest endorsement the Chancellor has received for a very long time'.[71] While the 'seven' originally set out to refute the New Cambridge case for protection, they succeeded in establishing some common ground. All were agreed that Britain needed an export-led recovery. The Cambridge economists thought British industry was in such poor shape that this could only happen behind a tariff wall; the 'seven' believed that with the right supply-side reforms, devaluation could be made to work. Both groups agreed that to slash the PSBR along the lines suggested by *The Times*, the LBS, or the monetarists of the LSE and City University would be hugely and unnecessarily damaging.

On 25 November, having opened the two-month long debate, Godley drew it to a close.[72] He still differed with the 'seven' on the merits of protection, but he hoped they were right that the pound had already dropped far enough to generate a balance of payments surplus. Summarizing the debate in *The Guardian*, Peter Jenkins wrote:

> it was in the columns of the newspapers, notably in the columns of the Times – under the very eye of the enemy, so to speak – that the intellectual dispute took place … The rallying of the neo-Keynesians (with honours especially to

> Wilfred Beckerman, Michael Posner and Wynne Godley, in spite of the last-named's protectionist heresies) caused the monetarists at least to shift their ground. Extreme talk of reductions in the PSBR of as much as £5 billions in a single year (by the editor of the Times, for example) was exposed as the dangerous nonsense it had always been.[73]

While Jenkins was careful to point out that there were few theoretical monetarists within either the Treasury or the Bank, and none within Cabinet, monetarist arguments *had* been used to justify large spending cuts. The conclusion of the academic debate in favour of a small reduction in the PSBR and against tariffs helped Callaghan and Healey to overturn an initial Cabinet majority against the deal then being negotiated with the IMF. On 27 November, on the eve of the crucial series of Cabinet meetings, the *Evening Standard* reported: 'What is now discernible is a movement among both economists and politicians towards a common view that really savage cuts in public spending at this juncture would do more harm than good.'[74] The IMF's official historian is, naturally, more circumspect: 'the policies of Prime Minister Callaghan were shaped amid the domestic political debate within the United Kingdom'.[75] The theoretical part of that debate took place in the press, primarily in the letters page of *The Times*. The debate was also carried out 'through' the press. We therefore turn to the dark arts of leaking and briefing.

Leaking and briefing

The IMF was paranoid about leaks. After checking into their Mayfair hotel on 1 November under assumed names, officials were warned by a Bank contact that their rooms were bugged.[76] Their paranoia was justified since, despite a prohibition on mentioning specific targets for the pound, the *Sunday Times* a week earlier had reported that 'The Fund thinks that sterling should be let down to about \$1.50 to the £ (against today's \$1.64).'[77] The next day, the pound suffered its biggest ever single-day fall outside of a formal devaluation.[78] Healey was forced to issue a statement that, while falling short of an explicit denial, described the article as 'irresponsible'.[79] The Acting Managing Director of the Fund said there was 'absolutely no basis in fact' to a story which the US Treasury Secretary called 'irresponsible and patently untrue'.[80] The journalist responsible, Malcolm Crawford, was accused in Parliament of being 'thoroughly unpatriotic' and the *Sunday Times* reported to the Press Council.[81] In the event, the Council ruled in favour of the newspaper on the grounds that it had taken ‘reasonable steps’ to check its story.[82] Not only was the story true, Crawford’s source was impeccable – the UK’s own IMF Director, Bill Ryrie.[83] Shortly afterwards, the IMF’s European head, Alan Whittome, informed his Managing Director that ‘all those nearest the calculations and almost all the economists believe that a rate at around $1.50 to $1.60 per £1 sterling is probably “right” at the present time’, and that ‘a further depreciation of the rate is unavoidable’.[84]

For the first two weeks of November, Treasury officials were prohibited from discussing policy changes with the IMF. They were less taciturn with British journalists. Just before the Malcolm Crawford story broke, Frances Cairncross wrote in *The Guardian*: ‘The Treasury and the Bank of England, tired of being told by people like us that they have been doing their job badly, have started to ring up and remonstrate sadly with critical financial journalists.’[85] While officials were remonstrating, their ministers were briefing. On 6 November, the *Financial Times* carried the scoop that the latest Treasury forecasts had the PSBR for 1977/78 overshooting the £9 billion figure agreed in Cabinet in July by £2 billion.[86] The article reported the ‘growing fear’ that savage cuts in the PSBR ‘could further deflate the economy at the worst possible time, adding to unemployment and damaging what is a very weak economic recovery’.[87] Whittome had conceded that if the forecasts ‘showed both a continued high level of unemployment and a somewhat better balance of payments picture, he would be more sympathetic to a larger PSBR than otherwise’.[88] A higher unemployment estimate duly helped the Treasury ‘massage’ the PSBR estimate up to £11 billion.[89] The Fund was immediately dubious. The Managing Director ‘expressed a strong suspicion that the figure for £11 billion for the PSBR in 1977/78 was “a trick”, so that the British could make “cuts” of £2 billion and thus keep to their chosen figure of £9 billion’.[90] Even the Prime Minister doubted the forecast. On 10 November the Fund’s Managing Director was told that Callaghan had asked ‘for an assessment of the estimates from ourselves, whom he deemed a trustworthy independent group’.[91] Former Treasury official Andrew Britton has since revealed:

> The IMF were very keen to give us targets that we could meet. That was their main priority and therefore if it appeared that we were over-forecasting Domestic Credit Expansion (DCE) or the PSBR, that was actually helpful in a sense because it meant that in the event it was going to be easier to get them to the numbers we’d agreed. Remember, as well as agreeing the size of the cuts we

> also had to agree what the target numbers were to be and it was very important to them, as it was to us, that the targets should in fact be achieved.[92]

Two days after the PSBR leak, *The Times* carried a front-page story under the byline 'Our Economics Staff' which, in contrast to its own editorial stance, reported: 'the general feeling, with which the IMF is expected to concur, is that the Treasury's new "bearish" forecasts for the level of economic activity make it less rather than more desirable to change the strategy to a smaller target deficit for the Budget next year'.[93] Former Treasury press officer Peter Browning calls this 'a most curious piece' which 'read like a Ministerial lecture to the IMF: perhaps that is what it was'.[94] If this first article read like a lecture, a subsequent article (also by 'Our Economics Staff') was a rebuke: 'it is not the function of middle-ranking IMF civil servants to treat with national governments on questions of policy'.[95] Indeed, 'there is no question of the IMF visitors making demands or laying down terms for the British drawing, although there has been some convergence of official Treasury and IMF opinion about the likely course of credit creation in Britain and the budget deficit next year'.[96] Conservative Party strategists compared this series of articles to the Kremlin's official pronouncements through the pages of the Soviet newspaper *Pravda*.[97] The briefing was certainly effective. While the academic debate was still raging in *The Times* letters page, ministerial briefing was changing the terms of the public debate in the opinion pages. The *Financial Times*, which had been calling for £2–£2.5 billion of cuts, scaled back to £1.5 billion.[98] *The Economist* now considered that £5 billion might be too much.[99] Even the hostile *Wall Street Journal* now argued that 'the last thing Great Britain needs is more austerity'.[100]

The Prime Minister opened the first of the crucial Cabinet meetings to discuss the package by stressing the need for absolute secrecy, since 'any leaks of views expressed in Cabinet could only be harmful to the country and the Government'.[101] The well-informed reporting of these Cabinet meetings in the press shows how little heed was paid to this warning. Indeed, there were so many leaks that Granada TV was able to reconstruct the Cabinet meetings in a documentary where senior ministers were played by journalists.[102] Did all this leaking and briefing make any difference to the final outcome? *The Guardian* certainly thought so:

> Seldom can the visit of an IMF mission to a country in difficulties have been accompanied by such an intense and open public debate. There is not much

> doubt that without the debate the Cabinet would have followed the Treasury in conceding to the IMF harsher terms than will now be agreed.[103]

The Cabinet finally agreed to cut public expenditure in 1977/78 by £1 billion, which, combined with the sale of £500 million of the Bank's holding in British Petroleum, reduced the PSBR forecast to £8.7 billion, with a further £1.5 billion of cuts in 1978/79 conditional upon the economy growing by 3.5 per cent. As such, the final outcome was remarkably close to Callaghan's opening position.[104] It could in no way be described as a victory for the IMF, as the US Senate Foreign Relations Committee recognized at the time: 'Callaghan apparently succeeded in convincing the IMF that there would be dire consequences if the British Government were pushed to the wall and forced to accept a tough deflationary package as a condition for the loan.'[105] The report suggested that the issues at stake were so 'basic to the fabric of British society that they required the broadest debate and consensus within the full spectrum of the Labour Party'.[106] The British press played a vital role in forging that consensus. Nonetheless, having shifted their own positions during the course of the negotiations, the newspapers reacted grudgingly to the 15 December package. The *Financial Times* felt that the measures were 'the very least that the IMF would accept' while the *Daily Telegraph* saw 'no cure' in a package described by *The Times* as a 'hotch-potch of wild guesses and pious hopes'.[107] *The Guardian*'s reaction was the most surprising:

> The Government has failed. It has produced a package which satisfies no-one, convinces no-one and in which nobody believes – least of all the people who put it together. The only thing which the package has achieved is to persuade the IMF to agree to recommend the loan. The cynical may say that this is all it was ever meant to achieve. But from the grudging way in which the Fund is parting with its money, even the IMF would appear to regard the package as only just good enough.[108]

The market's initial reaction was to agree, with sterling, equities, and gilts all losing ground. And yet, within a fortnight, the pound was 15 cents off its October lows and the Bank was intervening to stop it rising too far above the \$1.60–\$1.65 range agreed with the Fund.[109] By October 1977, the authorities had added more than \$15 billion of reserves, lowered interest rates by 10 percentage points, and were enjoying export-led growth. Even the PSBR was undershooting the IMF ceiling, with an out-turn in 1977/78 of just £5.6 billion. This led Healey to lament that if the true facts had been known at the time, Britain might have avoided the whole painful experience.[110]

Conclusions

It would be absurd to claim that the 1976 crisis was resolved entirely, or even largely, by the UK press. After intense negotiations between the Treasury and the IMF, the crucial decisions were made in a series of Cabinet meetings which represent, for Bernard Donoughue, 'the high point of old style Cabinet government'.[111] Indeed, as Peter Jay points out, Callaghan was partly using the IMF as a weapon to impose economic discipline on his Cabinet colleagues.[112] And we must not forget that the IMF was undergoing its own existential crisis as it sought to carve out a role for itself in a new world of floating exchange rates.[113] But it was a close-run thing. Without the academic debate in the letters page of *The Times* concluding in favour of the Treasury's position, and extensive ministerial leaking and briefing, it would have been even harder for Callaghan and Healey to overturn an initial Cabinet majority against the final package. And, as the US Senate Foreign Relations Committee recognized, the consensus had to include the full spectrum of the Labour Party. With a Parliamentary majority of just one in December 1976, it was by no means certain that Healey's December mini-Budget would pass through the floor of the House. That it did owed a great deal to the role played by the UK press.

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[1] Having received cabinet Cabinet Committee approval to approach the IMF, Healey was en route to the IMF's annual conference to open negotiations.

[2] While the pound had been floating since June 1972, the Bank was operating a managed float.

[3] 'Big Capital Outflow Swells UK Deficit', *The Times*, 8 September 1976.

[4] Britain drew upon IMF resources in 1948, 1956, 1961, 1964, 1965, 1968, 1969, 1972, and twice in early 1976.

[5] The phrase comes from B. Donoughue, *Prime Minister: The Conduct of Policy Under Harold Wilson and James Callaghan* (London, 1987), p. 67.

[6] K.M. Burk and A.K. Cairncross, *Goodbye, Great Britain: The 1976 IMF Crisis* (London, 1992), p. xi.

[7] M.G. de Vries, *The International Monetary Fund, 1972–1978, Vol. I: Narrative and Analysis* (Washington DC, 1985), pp. 465–6.

[8] E.E. Dell, *A Hard Pounding: Politics and Economic Crisis, 1974–1976* (Oxford, 1991), pp. 56–7.

[9] The Treasury was careful to schedule debt maturities to coincide with peak oil production in the early 1980s, effectively mortgaging the North Sea; D.W.G. Wass, *Decline to Fall: The Making of British Macro-Economic Policy and the 1976 IMF Crisis* (Oxford, 2008) p. 197.

[10] In 1974, the government borrowed $1.5 billion from a syndicate of commercial banks, guaranteed $2.6 billion of loans to the nationalized industries, and increased its swap line with the US Federal Reserve by $1 billion.
[11] Healey drew down what remained of the UK's gold tranche after the Heath government's 1972 drawing (SDR 304 million, $356 million), applied for the first credit tranche (SDR 700 million, $819 million), and also SDR 1 billion ($1,170 million) from the new facility set up to recycle the surpluses of the oil producers. IMF members were allocated a quota comprised of four tranches. The first tranche (the gold tranche) represented the member's contribution of assets other than its own currency, originally gold. Members drawing on the successive 'credit tranches' above the gold tranche could expect increasingly harsh conditionality.
[12] HM Treasury, 'Financial Forecast, 1975/76 and 1976/77', 29 October 1975, London, The National Archives (hereafter 'TNA'), T389/34.
[13] Quoted in Wass, *Decline to Fall*, p. 158.
[14] D.W. Healey, 'Letter of Intent', 18 December 1975, TNA, T364/50.
[15] N.J. Monck, 'Note of a Meeting Held in the Chancellor of the Exchequer's Room', 25 May 1976, TNA, T364/50.
[16] Wass, *Decline to Fall*, p. 192.
[17] At the end of 1973, the Arab nations held about 20% of the sterling balances. Two years later, they held approximately 75%, 'Sterling Up Or Sterling Down', *The Economist*, 12 June 1976.
[18] 'L.A. Whittome and C.D. Finch to Managing Director', 3 November 1975, Washington DC, International Monetary Fund Archive (hereafter 'IMF'), EURAI country files, United Kingdom, 1975–9, Box 106, File 2.
[19] At the end of March 1976, the sterling balances stood at £7,354 million, with £4,016 million in the hands of central banks and international monetary institutions. The Bank's 'official' reserves stood at just over £3 billion equivalent. Adjusted for overseas borrowing by the public sector and nationalized industries, the net reserves were *minus* £2.5 billion equivalent.
[20] 'The Benefits of a Little Economic Mismanagement', *Financial Times*, 11 March 1976.
[21] Wass, *Decline to Fall*, p. 115.
[22] ibid., p. 178.
[23] 'M.E. Hedley-Miller to J.L. Sangster', 3 March 1976, London, Bank of England archive (hereafter 'BOE'), C43/779; 'Modalities of Securing a Depreciation', 5 March 1976, BOE, C43/779.
[24] In October 1975 the Treasury had ruled out an overt 'step change' in sterling as like 'going for a ride on a tiger', 'Exchange Rate Policy', 22 October 1975, BOE, C43/779.
[25] M.E. Hedley-Miller and D.A. Walker, 'Modalities of Securing a Depreciation', 4 March 1976, BOE, C43/779.
[26] Referring to the events of 4/5 March, Wass writes 'The Treasury could hardly believe its luck', Wass, *Decline to Fall*, p. 179.
[27] J.L. Sangster, '4th March 1976', 9 August 1976, BOE, C43/780; J.L. Sangster, 'Sterling's Depreciation: 4th–16th March 1976', 7 April 1976, BOE, C43/779.
[28] J.L. Sangster, 'Sterling's Depreciation: 4th–16th March 1976', 7 April 1976, BOE, C43/779.
[29] Nonetheless, the Bank spent $50 million smoothing the market, J.L. Sangster, 'Events of the Afternoon of Thursday 4th March 1976', 5 March 1976, BOE, C43/779; N.J. Monck, 'Note of a Meeting Held in the Chancellor of the Exchequer's Office', 5 March 1976, BOE, C43/779.
[30] 'Sterling Goes Below the Two-Dollar Barrier', *Financial Times*, 6 March 1976.
[31] W.J.H., 'Contributors to the Recent Pressure on Sterling and Reserve Loss', 7 May 1976, BOE, C43/780.
[32] Quoted in P. Browning, *The Treasury and Economic Policy, 1964–1985* (London, 1986), p. 77.
[33] The 'snake' was set up in 1972 to limit fluctuations of the major European currencies to within a 4.5% band linked to the US dollar. The Treasury estimated that the French spent over

$4 billion defending the franc between January and March 1976, 'D.A. Walker to Mrs Hedley-Miller', 12 March 1976, BOE, C43/779; 'Mr Healey Rejects French Blame for Retreat of the Franc', *The Times*, 16 March 1976.
[34] *The Rambouillet Summit Declaration*, Cmnd 6314 (London, 1975), p. 3.
[35] The Prime Minister had instructed the Bank to stop supporting the pound on 21 May, F.H. Capie, *The Bank of England: 1950s to 1979* (New York, 2010), p. 747.
[36] US Treasury Secretary Bill Simon told President Ford on 7 June that 'as a condition to our agreeing to provide financial support, the British Government has communicated to me their intention to take immediate steps to reduce the availability of domestic credit, followed by a series of steps over the next six months to tighten fiscal and monetary policy', quoted in M. Harmon, *The British Labour Government and the 1976 IMF Crisis* (Basingstoke, 1997), pp. 144–5. Simon apparently also told Callaghan that 'if tough steps haven't been taken to restore confidence in the pound, it's going to hit the fan after Labor Day', Burk and Cairncross, *Goodbye, Great Britain*, p. 46.
[37] 'How the Hard Money Men Took Over Britain', *Sunday Times*, 14 May 1978.
[38] S. Strange, *International Monetary Relations* (Oxford, 1976), p. 127.
[39] I. Plenderleith, 'Telephone Conversation with Dr Burns: 3 June 1976', BOE, 2A77/1.
[40] N.J. Monck, 'Note for the Record', 3 June 1976, BOE, 2A77/1.
[41] 'Mr Healey: Borrowing Money to Buy Time', *The Times*, 10 June 1976.
[42] ibid.
[43] D.W. Healey, *The Time of My Life* (London, 1989), p. 428.
[44] The Bank drew just over $1 billion from the facility in June 1976; Cabinet Office, 'Minutes of 13th Meeting on Ministerial Committee on Economic Strategy', 23 September 1976, TNA, CAB 134/4025; 'Big Capital Outflow Swells UK Deficit', *The Times*, 8 September 1976.
[45] D.W.G. Wass, 'The Approach to the IMF', 10 September 1976, TNA, T381/15.
[46] Wass, *Decline to Fall*.
[47] The IMF's preferred monetary aggregate was Domestic Credit Expansion which, in the UK's case, adjusted the broad money supply for the balance of payments.
[48] Healey announced on 22 July 1976 that 'for the financial year as a whole money supply growth should amount to about 12 per cent', HC Deb., 22 July 1976, vol. 915, cc2018–19.
[49] L.J. Callaghan, *Time and Chance* (London, 1987), p. 433.
[50] L.A. Whittome, 'Conversation With Mr Ryrie', 9 July 1976, IMF, EURAI country files, United Kingdom – correspondence and memos, January–September 1976, Box 106, File 3.
[51] 'United Kingdom: PSBR in 1977/78 on the Basis of Illustrative Financial Programme', 5 August 1976, IMF, EURAI country files, United Kingdom – correspondence and memos, January–September 1976, Box 106, File 3.
[52] 'Programme for Economic Stability', *The Times*, 20 September 1976.
[53] 'An Outline for Healey's Finest', *Daily Telegraph*, 4 November 1976; 'Repainting the Titanic', *The Economist*, 2 October 1976.
[54] 'Dealing With Intangibles', *Financial Times*, 1 November 1976; 'The Package That Could Stop the Rot', *The Guardian*, 15 October 1976.
[55] 'Why Mr Healey's Measures Must Be More Than Simply Window Dressing', *The Times*, 2 December 1976.
[56] 'Programme for Economic Stability', *The Times*, 20 September 1976.
[57] W.A.H. Godley, *The Times*, 27 September 1976.
[58] B. Griffiths and G.E. Wood, *The Times*, 2 October 1976.
[59] J. Williamson, *The Times*, 11 October 1976.
[60] N. Kaldor, *The Times*, 12 October 1976.
[61] J.S. Flemming and M.FG. Scott, *The Times*, 16 October 1976.
[62] A.K. Cairncross, *The Times*, 4 November 1976.
[63] The New Cambridge analysis assumed the private sector remained in small surplus; R.J. Ball and T. Burns, *The Times*, 20 October 1976.
[64] 'Mr Healey Woos CBI in Partnership Plea', *The Times*, 22 October 1976.
[65] Posner served as Deputy Chief Economic Adviser to the Treasury until September 1976.

[66] M.V. Posner, *The Times*, 27 October 1976.
[67] ibid.
[68] 'How the Budget Deficit Can Be Cut By £5,000m Next Year', *The Times*, 11 November 1976.
[69] W. Beckerman et al., 'A Protectionist Policy Is Not the Way to Set Britain on the Road to Recovery', *The Times*, 15 November 1976.
[70] 'Mr Healey's New Allies', *Financial Times*, 17 November 1976.
[71] ibid.
[72] W.A.H. Godley, *The Times*, 25 November 1976.
[73] 'Milton's Paradise Lost …', *The Guardian*, 10 December 1976.
[74] Quoted in Browning, *The Treasury*, p. 92.
[75] de Vries, *International Monetary Fund*, p. 469.
[76] C.D. Finch, quoted in Capie, *Bank of England*, p. 753.
[77] 'The Price Britain Faces for IMF Aid', *Sunday Times*, 24 October 1976.
[78] With the clocks going back over the weekend, the Bank had forgotten that the continental exchanges would be open an hour earlier. The lack of early intervention apparently contributed to the precipitate fall, 'Sterling Yesterday', A.N. Ridley to M.H. Thatcher, 26 October 1976, Cambridge, Churchill Archives Centre (hereafter 'Churchill'), THCR 2/12/2/1.
[79] HC Deb., 25 October 1976, vol. 918, c30.
[80] HC Deb., 25 October 1976, vol. 918, c29.
[81] HC Deb., 25 October 1976, vol. 918, c35.
[82] Browning, *The Treasury*, p. 85.
[83] '30th Anniversary of the British IMF Negotiations', *Mile End Group*, 6 December 2006, see <www.mileendgroup.com/event/30th-anniversary-british-imf-negotiations/>, last accessed 5 December 2013.
[84] Whittome later contradicted himself: 'we were not saying that $1.50 was right at all … I don't know if we were putting figures on it, but no one was talking about $1.50', quoted in Burk and Cairncross, *Goodbye, Great Britain*, p. 74; 'L.A. Whittome to the Managing Director', 27 November 1976, IMF, EURAI country files, United Kingdom – correspondence and memos, January–March 1977, Box 107, File 3.
[85] 'Teetering Upon the Turning Point', *The Guardian*, 19 October 1976.
[86] 'Public Borrowing Up By £2bn. Next Year', *Financial Times*, 6 November 1976.
[87] ibid.
[88] W.S. Ryrie, 'Note for the Record', 4 October 1976, TNA, T381/16.
[89] The Treasury Policy Co-ordinating Committee met on 2 November to discuss 'the handling of the forecasts with the IMF'. While there were arguments for showing a lower PSBR estimate (there would be fewer reasons for further deflation), the PCC decided to show the IMF a higher estimate to 'give them a clearer view of the political difficulties of reaching the target'. As well as more bearish assumptions on unemployment and tax revenue, the Treasury also eliminated the £1 billion 'shortfall' used in previous PSBR forecasts. HM Treasury, 'Policy Co-Ordinating Committee', 2 November 1976, TNA, T277/3175; L. Pliatzky, *Getting and Spending: Public Expenditure, Employment and Inflation* (Oxford, 1982), p. 160; K. Bernstein, *The International Monetary Fund and Deficit Countries: The Case of Britain, 1974–77* (Ann Arbor, MI, University Microfilms International, 1983), p. 500.
[90] 'B. Rose to L.A. Whittome', 10 November 1976, IMF, EURAI country files, United Kingdom, 1975–9, Box 106, File 2. In the event, the forecast was scaled back to £10.5 billion after discussion with the Fund.
[91] L.A. Whittome, 'Memorandum for Files', 11 November 1976, IMF, EURAI country files, United Kingdom, 1975–9, Box 106, File 2.
[92] K.M. Burk et al., 'Symposium: The 1976 IMF Crisis', *Contemporary Record*, vol. 3, no. 2 (November, 1989), p. 45.
[93] 'Government Seeking IMF Advice on How to Boost the Economy', *The Times*, 8 November 1976.
[94] Browning, *The Treasury*, p. 91.

95 'Cabinet Given First Glimpse of IMF Loan Measures', *The Times*, 24 November 1976.
96 ibid.
97 A.N. Ridley, 'Latest News from *Pravda*', 25 November 1976, Churchill, THCR 2/12/2/1.
98 'A Change of Direction', *Financial Times*, 29 November 1976.
99 'Sheep Not Lambs', *The Economist*, 13 November 1976.
100 'Britain's IMF Loan', *Wall Street Journal*, 30 November 1976.
101 Cabinet Office, 'Conclusions of a Meeting of the Cabinet Held at 10 Downing Street on Tuesday 23 November' (Limited Circulation Annex), CM (76) 33rd Conclusions, Minute 2, TNA, CAB 128/60.
102 'A Cabinet in Conflict: The Loan from the IMF', *Inside British Politics*, Granada TV (first broadcast 15 February 1977).
103 'Day of Decision', *The Guardian*, 1 December 1976.
104 Burk notes that 'the scale of the cuts seemed to have little independent meaning: it was all symbolic … not only were the actual cuts not very big, they were apparently all quietly restored over the subsequent year', Burk et al., *The 1976 Crisis*, p. 40.
105 'US Foreign Economic Policy Issues: The United Kingdom, France, and West Germany', *Staff Report of the Subcommittee on Foreign Economic Policy of the Committee on Foreign Relations*, United States Senate (Washington DC, 1977), p. 9.
106 ibid., p. 11.
107 'Another Bite at the Cherry', *Financial Times*, 16 December 1976; 'Mr Healey Tries Again', *Daily Telegraph*, 16 December 1976; 'DCE Rules, OK?' *The Times*, 16 December 1976.
108 'Reflections of Dither', *The Guardian*, 17 December 1976.
109 N.J. Monck, 'Note of a Meeting Held in the Chancellor's room at H.M. Treasury at 10:45 A.M. on Friday 10 December 1976', TNA, T364/52.
110 Healey, *Time of My Life*, pp. 432–3.
111 '30th Anniversary of the British IMF Negotiations', *Mile End Group*, 6 December 2006.
112 Callaghan's personal emissary to the IMF, Harold Lever, notes 'the idea was that the IMF would bring the Cabinet to order', Burk et al., *The 1976 Crisis*, p. 45; private correspondence with Peter Jay, 1 February 2013.
113 Hugh Stephenson points out that Harold Lever 'understood, as a card player, that the IMF did not really have all that strong a hand, as it could scarcely destabilise one of its key members', private correspondence with Hugh Stephenson, 6 February 2013.