



SECRET

UNITED KINGDOM TREASURY AND SUPPLY DELEGATION  
BRITISH EMBASSY  
WASHINGTON, D.C. 20008

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CH/EXCHEQ	WASHINGTON
REC.	20 DEC 1976
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COPIES TO	

16 December 1976.

*copy sent 20/12*

[REDACTED]  
H. M. Treasury,  
London, S.W.1.

*Dear* [REDACTED]

This is to record a point which I mentioned to you on the telephone when I told you that Witteveen had agreed to the Letter of Intent, and had given me a form of words about his intention to recommend our drawing.

The only point of substance which arose during my discussion with him was about the extent to which the £500 million "fiscal adjustment" within the £2 billion cut in the PSBR in 1978/79 and the further contingent adjustment of £500 - 1,000 million might come from public expenditure as opposed to taxes. Witteveen said he hoped he could take it that the Chancellor intended that these adjustments should be made mainly by expenditure cuts. I said that this was not the position. As regards the £500 million within the £2 billion PSBR reduction to which we are committed, the reason why this had been described as a "fiscal adjustment" was because the Chancellor doubted whether it would be possible to get much or any of it in the form of expenditure cuts. As regards the contingent further adjustment, the position was more open. In the circumstances envisaged, i.e. the need to cut in order to release resources for faster growth, I was sure the Chancellor would recognise that the economic case for doing as much as possible through expenditure was strong, but the words which had been agreed meant that there was no commitment about the form which the fiscal adjustment might take.

Witteveen then said that he would be content if I could confirm that in both cases the Chancellor would prefer to do as much as possible of the adjustment by means of expenditure reductions. I said that I had no doubt that he would be content with that formulation, and undertook to report accordingly.

*20m*

*My*

[REDACTED]

[REDACTED]