

(20)
26/8/79

- [redacted]) Question 1
- [redacted] - Question 2
- [redacted] - Question 3
- [redacted] - Questions 4 & 5
- [redacted] - Question 6
- [redacted] - Question 7
- [redacted] - Question 8

cc [redacted]
 [redacted]
 [redacted]
 [redacted]
 [redacted]
 [redacted]
 [redacted]
 [redacted]
 38/12/79/21

WP3 AND G10 MEETINGS: QUESTIONS ARISING ON STAFF REPORT

As you may know, [redacted] will be attending meetings of WP3 and G10 on Tuesday and Wednesday of this week at which the UK economy will be discussed on the basis of the IMF's Staff Report, a number of copies have already been distributed within the Treasury, (though not necessarily to all recipients of this minute).

2. A quick reading of the Report suggests a number of points on which some defensive briefing would be helpful, as follows:-

1. public expenditure cuts - there is some criticism of the extent to which these fall on the construction industry. The Staff comment that it is unfortunate these will hit the industry "at a time when this sector is already suffering from a lack of demand and also when it seems likely that these cuts are likely to be offset at least in part by renewed expenditures in the short to medium-term." I should be grateful for any comments on this from [redacted] and [redacted]. It would be helpful to have figures showing the proportion of the latest cuts, both on their own and taken together with those in February and July, falling on the construction industry. I assume the Staff's reference to offsetting "renewed expenditures" is intended to argue that deferment of capital projects leads to additional current spending on maintenance of existing buildings. Can we rebut this?

2. The Staff comment with regret on the inclusion of aid cuts in the package; and this may be taken up by the Dutch and the Nordics. The main point in reply is presumably that the aid programme was exempted in February and July. But is there anything helpful we can say about the rate of growth of planned aid spending between, say, 1974-5 and 1979-80, as compared with public spending generally and/or GDP?

3. The Staff concede somewhat grudgingly that the scale of cuts introduced "strike an appropriate balance" between the conflicting needs to shift resources out of the public sector and to avoid additional unemployment. They comment, however, that deeper cuts might induce a more rapid resource shift and that there is "a large question mark overhanging discussion of the amount of spare resources currently available". Could [REDACTED] consider what can be said on this latter point?

4. The Staff comments that the projected improvement in the trade (ie visible) deficit between 1976-77 and 1978-9 is more than accounted for the reduction in oil imports as a ^{result of} /North Sea oil. Could [REDACTED] comment on this? What is the implication for the balance in manufacturers?

5. The Staff also comment that we are still projecting a fall in the UK's market share of exports. If this is so, what explanation should be made to any criticisms on this point?

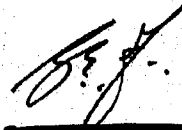
6. The Staff express concern that there has been a growth in selective import restrictions particularly on the exports of countries with relatively low per capita incomes. Could [REDACTED] please let me have an indication of all new import restrictions introduced since end 1973; classified by country and by value of trade, identifying separately those negotiated under the MFA?

7. The Staff comment in an Appendix that earnings are rising at 12% pa. at present. This may be the subject of unfavourable comment. What is the explanation?

8. [REDACTED] may like to comment on the passages in the Report about exchange rate management both past and future. Some of these are critical, but not to my mind unacceptably so.

3. I should be grateful if comments on the above points could reach me (with copies direct to [REDACTED], [REDACTED] and [REDACTED]) by, 2 p.m. today. If this is not possible, perhaps they could be telegraphed to UKDEL OECD by first thing on Tuesday morning.

4. [REDACTED], [REDACTED], [REDACTED] and [REDACTED], to whom copies of the report go, may like to comment on any other points which strike them.



[REDACTED]
20 December 1976