5

All out of money
1976–77

There is a difference between being a charitable benefactor and host to a parasite.

William Simon's explanation of US policy towards Britain during the IMF crisis[1]

Introduction

Allegedly suffering from the first stages of Alzheimer's disease, Harold Wilson announced he would resign as prime minister in March 1976. As one close associate of the prime minister recalled, Wilson had simply 'had enough'.[2] A battle for the party leadership (and thus to become prime minster) ensued which the 'champion of the moderates' James Callaghan eventually won.[3] Callaghan took office on 5 April 1976, and Anthony Crosland took over from the new prime minister as foreign and commonwealth secretary. In his previous position, Callaghan had been influential in the formulation of British foreign policy and he was determined to retain a dominant role in foreign policy-making. Callaghan's promotion to number 10 Downing Street thus ensured a degree of continuity in the conduct of British foreign policy.[4]

On the other side of the Atlantic, events were tumultuous for the Ford administration, both domestically and in the realm of international relations. The SALT II negotiations with the USSR effectively ground to a halt, and US diplomacy with the PRC was failing to produce any discernible results for the US. This was most obvious in respect to America's long war in South East Asia and, in May 1975, US forces were ejected from Vietnam. In Africa, a Soviet-inspired revolution appeared to be taking hold throughout Angola. The situation in Europe did not appear much better, given that the rise of Euro-communism was perceived as a growing challenge to American interests. In the economic realm there was little cheer for the president, given that international recessions were deepening and the solutions reached amongst the major Western economies appeared to be making little positive difference. Domestically, the president had to survive Ronald Reagan's challenge to become the actual Republican nominee for president. Barely surviving this, Ford found himself involved in an arduous and closely fought presidential campaign with the Democrat nominee, Jimmy Carter. After months of lengthy campaigning, Ford would eventually lose the general election in November 1976. The year 1976–77 was, on all fronts, a difficult one for the Ford White House.[5]

US–UK relations were not to be an exception to this. Following a summer of economic turmoil, which included speculative pressure on the UK currency (sterling), and the refusal of international markets to lend further credit to Britain to finance its spending, James Callaghan was forced to seek a loan from the International Monetary Fund (IMF). The IMF insisted that a loan would only be provided if Britain cut its projected Public Sector Borrowing Requirement (PSBR) for the financial years 1976–77, 1977–78 and 1978–79. The IMF wanted to see a reduction in the UK's PSBR from a projected £12 billion to a figure in the region of £9 billion by FY 1978–79. This policy was designed to deflate the British economy and restore borrowing to levels that would be deemed 'credible' by international markets.[6] Callaghan, however, believed the IMF's proposed PSBR reduction was too high because it would lead to increased unemployment and, moreover, fail to resolve the problem of sterling being utilised as an international reserve currency. Instead, Callaghan wanted a loan from the IMF that did not require such large cuts in the PSBR, and also a 'safety net' loan that could be drawn upon to defend against currency speculation.[7]

The UK–IMF loan application dominated US–UK relations at this juncture because Callaghan wanted the Ford administration to intercede on Britain's behalf to reduce the IMF's PSBR demands. The US – given its economic influence, coupled with its preferential position within the world's economic institutions – did have the ability to do this.[8] The real test for Callaghan, though, was to convince the Ford administration to use its influence to assist the UK. Callaghan therefore sought to convince Washington that the IMF's economic reasoning behind such a large PSBR reduction was flawed. The prime minister, however, had a contingency plan which involved Britain's security commitments to the Western alliance acting as a sort of 'bargaining chip'. In essence, Britain's nuclear deterrent, its contribution to NATO's conventional forces and its intelligence facilities would all be threatened to be reduced, or even disbanded, if the US did not provide the level of economic assistance that London desired. It was believed that by threatening such action, the US would provide economic assistance for fear that the British would undermine US security interests.

Events would prove that Callaghan's thinking was misplaced. The Ford administration refused to directly interfere in the UK–IMF loan negotiations, and the final safety net loan it assisted with did not meet Callaghan's expectations. In the final assessment, the Ford administration was unwilling to acquiesce to Callaghan's request for a number of interlinked reasons. The most obvious was that they simply did not agree with his argument that Britain's public expenditure only required a small reduction. Secondly, the drawn out negotiating process between the British government and the IMF showcased how a number of longer-term trends in British economic and defence policy had undermined the US–UK relationship to a point that the US did not believe Britain any longer warranted preferential treatment in its dealings with the IMF so it could maintain its defence commitments. In essence, when the Labour government of James Callaghan needed the US–UK's special relationship to deliver material benefits, it came up rather short.

The context of the IMF crisis

Whilst this chapter is focused predominantly upon the political–diplomatic US–UK relationship, the economic context to the IMF crisis needs to be explained in order to contextualise the wider political issue. Throughout 1974–76, the Wilson government had implemented a series of public expenditure cutbacks and tax rises in order to control inflation, reduce the budget deficit and restore international confidence in would-be creditors that Britain remained a sound investment destination. Such measures, however, failed to achieve Wilson's ambitions, and by the spring of 1976 the issue of Britain's budget deficit had become a major concern for the Callaghan government.[9] The forefront of British concerns surrounded both the size of Britain's PSBR and the level to which it had grown throughout the past two years. For example, in March 1974, the PSBR stood at £2.7 billion but, by 1975, Denis Healey had outlined that a PSBR of £9 billion was needed. By 1976, the figure had grown even further to approximately £12 billion. Lack of economic growth, rising unemployment, industrial unrest and more aggressive inflation all contributed to the new prime minister's woes. Given Callaghan's inheritance, it is understandable that some have seen Wilson as having exited 'in the nick of time'.[10]

Given these economic difficulties, sterling – in a repeat of what had occurred only ten years previously – came under speculative pressures from international money markets. In its simplest terms, this meant that holders of sterling began to offload the currency, and the price of sterling began to plummet.

Thus, those holding sterling deposits were seeing the value of their investment fall and this increased the likelihood that they too would look to offload their deposits. The Bank of England responded to this by purchasing sterling; it was believed that this would provide a demonstrable sign of confidence in the currency's stability, and thus convince investors to hold on to their sterling deposits. This, it was hoped, would stabilise the currency and prevent its further depreciation. By June 1976, it was apparent that this had failed and, on 3 June 1976, Callaghan was informed that the Bank of England – having spent some £3 billion in trying to defend the rate of sterling – had exhausted its capacity to continue purchasing sterling. Consequently, Callaghan was advised that Denis Healey should hold a meeting with both US and European officials to begin preliminary discussions about obtaining further funds to support sterling.[11] Healey himself urged Callaghan to agree to a swap facility with the US Federal Reserve and European central banks, which would allow Britain to draw on further credit to defend sterling. It should be noted at this point that US assistance in defending sterling from speculation was not unique to this period, given that in 1974 Wilson had attempted to get a 'cooperative attitude' from the US if sterling came under speculative attack.[12] Given also the US's economic power, looking for US assistance was an entirely natural option for British policy-makers to take.

Other options were suggested, which included a 'sweating it out' approach, or to seek an IMF tranche support loan. Both, however, were quickly dismissed by Healey who believed the 'sweating it out' option would only lead to sterling's price collapsing even more quickly. The IMF route appealed less given that it would seek to link any loan with a number of political conditions. For Healey, these would be politically unpalatable because they would likely involve the British government having to make large public expenditure cutbacks which would harm the social welfare programmes that the Labour government was both committed to and electorally reliant upon. Healey's thinking was based on good foundations given that Dr Johannes Witteveen, the Managing Director of the IMF, had told Healey in November 1975 that any loans provided to the UK would be conditioned on the British government enacting large public expenditure cutbacks.[13] Reinforcing this position was the fact that only a week after Healey had proffered his advice to Callaghan, Witteveen reiterated a similar warning to him.[14]

Callaghan accepted Healey's advice and a meeting with William Simon, the secretary of the Treasury, and Arthur Burns, the chairman of the Federal Reserve, was arranged. Once the meeting commenced, Simon and Burns explained that they wanted to help Britain in 'every way they could'.[15] Yet, as they informed Healey, it was believed in 'some quarters' that Britain was not doing everything it could to rectify its increasing budget deficit. 'Some quarters' clearly referred to people such as Robert Hormats, the senior staff member for International Economic Affairs on the National Security Council.[16] Hormats had made it known earlier in the year that the British government's incompetence was leading the country towards economic ruin, and Healey's budget of February 1976 would not control inflation or stabilise the price of sterling.[17] When Healey had announced in February 1976 that Britain would be cutting its PSBR by £1 billion, senior Ford administration officials had to be instructed to welcome the news. Though the announcement was viewed as a positive signal, the cut of £1 billion in Britain's PSBR was still deemed insufficient to rectify Britain's economic problems.[18] As Simon and Burns reminded Healey, if this type of thinking won through, there would be little chance of market confidence in sterling returning until radically different economic policies were pursued by the British government.[19]

Given all of this, Sir Kenneth Berrill, the head of the Central Policy Review Staff, was surely correct when he warned Callaghan that Britain would likely meet a frosty response from Simon and Burns at the upcoming international economic conference in Puerto Rico. As Berrill suggested, US officials were likely to respond with a 'putting your house in order first' attitude.[20] In practice, this meant the extension of further credit would not be forthcoming until deeper cuts in Britain's public expenditure occurred. Events soon demonstrated the accuracy of such advice.

Stories throughout the newspaper media suggested that Arthur Burns would be particularly unwilling to offer Britain an extension of credit unless it involved the British government enacting serious economic reforms.[21] At the Puerto Rico conference, these stories were proven to be well founded, given that Burns informed Callaghan:

> We in the United States wish to support you in every way that we can but we could not consider the provision of further credit. Without a change in underlying economic and financial policy, financial assistance would merely increase your external debt and delay the inevitable.[22]

Burns had demonstrated his hostility to providing further credit unless some type of fundamental adjustment to British economic policy was forthcoming and therefore, when the British agreed to a loan from the Federal Reserve in June 1976, it was attached with a series of conditions. The most important one was that the loan had to be repaid in full by December 1976, and if Britain was unable to do this then a loan from the IMF would have to be sought in order to repay this American credit.[23]

At this stage though, British policy-makers were not overly concerned about these conditions attached to the Federal Reserve's loan. In fact, Healey was confident that Britain would be able to repay the American loan on time, as he reasoned that economic growth would reduce Britain's deficit by bringing in extra taxation for the Treasury. Accordingly, the PSBR could be reduced and a surplus would be left to repay the loan.[24] US officials were of the opposite opinion. 'At the present rate the British, who have yet to make the substantive policy changes necessary, will have to borrow from the IMF,' Edwin Yeo – the under-secretary for monetary affairs at the US Treasury – informed the president.[25] Yeo's assessment would prove to be rather more accurate than Healey's and by September his prediction was coming true. Britain had been unable to reduce its deficit because Healey's projected economic growth had simply not happened. Market confidence in sterling, and Britain's economic policies more generally, also remained low. Despite earlier predictions that Britain would not require an IMF loan, Healey was now seriously contemplating undertaking this course.[26] As Simon informed Kissinger and Scowcroft, 'Healey appears to be readying himself for negotiations with the IMF. He indicated quite clearly that he plans to begin negotiations with the Fund – probably in late October'.[27]

Whether Healey would have attempted to gain an IMF loan to repay the standby credit is a moot point, because events surrounding sterling forced his hand. Throughout the summer of 1976, sterling's rate steadily depreciated, which, in large part, had been promoted by the UK Treasury as a means of making British export goods more competitive internationally. However, by September 1976, sterling had begun to slide uncontrollably, and holders of sterling began to offload it en masse.[28] Further reducing confidence in the British economy were the events of the Labour Party conference – held in Blackpool at the end of the month – that gave the impression to the financial markets that Callaghan was losing his grip over the party. As the *Daily Express* noted in its lead article, James Callaghan would be 'cracking the whip amid mounting squabbling behind the scenes'.[29] Events at the conference hardly gave an impression that Callaghan was fully in control of his party, given that when Healey took to the stage to explain that some level of public expenditure cutbacks was required to stabilise the economy, he was roundly booed by the audience.[30]

Events soon took an even worse turn for the British economy when on 28 September the situation surrounding sterling 'exploded'.[31] In practical terms, this meant that the value of sterling had begun to tumble uncontrollably as holders of the currency sought to offload their deposits. This resulted in the infamous episode where Healey did not travel to an IMF conference in Manila. Instead, he returned from Heathrow airport to provide a public sign that he was in control of the situation. The markets took the opposite impression and the price of sterling plummeted further.[32] To combat this, the Bank of England attempted to stabilise sterling by purchasing a further $100 million of the currency. This bought the government some temporary respite with sterling stabilising somewhat, yet – in spite of such efforts – Callaghan was informed that sterling was going to fall to at least $1.50 (to place this in perspective, on 27 September sterling stood at $1.70, and had lost over 12 per cent of its value). More worryingly, this could not be guaranteed as the floor rate, i.e. sterling would keep falling in value.[33] Thus, it is with only a touch of hyperbole that one national newspaper would exclaim the need to 'Save our Sterling'.[34] Callaghan's government, without the necessary funds to indefinitely defend the rate of sterling, restore market confidence or repay the standby credit loans due in December 1976 to the US Federal Reserve, decided an application for an IMF loan was the only recourse available.[35]

An important point to be added at this juncture is that the IMF does not always have enough money in convertible currency to lend to foreign governments. Accordingly, it must go to central banks to request these funds, and from here the IMF negotiates with a government and then presents the loan conditions to the Group of Ten (G10). The G10 (comprised of the world's leading industrial nations, plus Switzerland) then decides whether to provide the necessary currency for the loan. The US, given its powerful economic position, had an influential role within the G10, and the US Federal Reserve was probably the single most powerful member of the central banks represented.[36]

Callaghan expected the IMF to demand a major reduction in Britain's PSBR which would only be accomplished by reducing Britain's public expenditure programmes. For Callaghan this was unpalatable politically, but he also believed that Britain's economic problems were magnified by sterling acting as an international reserve currency. In his assessment, this meant that the British economy was exposed to international speculative pressures on sterling, which could force significant price fluctuations and damage Britain's economic performance.[37]

Internal Labour Party politics was the other key factor influencing the prime minister's decision-making. For the Labour government, the form of any IMF loan was a matter of vociferous debate. Healey had suggested that Britain should seek a loan of £2.3 billion from the IMF, and that this would finance the projected budget deficit of £3 billion and would involve public expenditure cuts of £700 million.[38] Anthony Crosland was opposed to Healey's plans, and argued that such a reduction in Britain's public expenditure would only deepen Britain's recession and make economic recovery more difficult.[39] For the left-wing members of the government (which included Deputy Leader of the Party Michael Foot, Business and Energy Secretary Tony Benn and Secretary of State for the Environment Peter Shore), the concept of public expenditure cuts while unemployment remained at over 5 per cent of the workforce was anathema.[40] Moreover, the idea of having to sacrifice aspects of welfare spending in order to repay loans to central banks was deeply unappealing for the Labour government. The trade unions, which provided strong support to the Labour Party, were also making their opposition known to accepting deep PSBR cuts as a condition of the IMF loan.[41] The trade unions were hardly being encouraged to shift from this position given that the likes of Michael Foot were giving rousing speeches proclaiming that public expenditure on social services should not be reduced.[42] The prime minister therefore had a divided Cabinet, and more worrying was the fact that his two most senior Cabinet officials, Denis Healey and Antony Crosland, held diametrically opposed positions.[43]

To work his way from this impasse, Callaghan believed that he could convince President Ford to utilise US influence with the IMF to ensure that the loan conditions set by the IMF would not demand such a substantial reduction in Britain's PSBR. The prime minister therefore began the process of acquiring US support. He arranged for a telephone call with Ford and began drafting a letter to the president outlining Britain's position. Callaghan's initial draft letter was in keeping with the 'pugnacious' mood he held towards the entire IMF application.[44] In the 1960s, when he had been chancellor of the exchequer, Callaghan had suggested that a reduction in the British Army of the Rhine (BAOR) should be threatened to ensure US financial assistance. The thinking behind this idea was that the US would not want to see one of its key alliance partners withdrawing from the defence of Europe so would supply the necessary financial support.[45] Callaghan, now as prime minster, once again suggested a similar course.[46] However, Callaghan was persuaded against pursuing a path that so explicitly linked US financial assistance to Britain upholding its security commitments for fear this would appear as a type of blackmail and needlessly irritate opinion in Washington. Thus, direct references to BAOR commitments were omitted from his letter to Ford.[47] The letter did note, however, that without financial assistance Britain – 'as an ally and a partner in the western alliance' – could no longer be expected to continue with its current commitments.[48] While not as bellicose as originally intended, Callaghan had signalled his intent to utilise Britain's position within the Western security alliance as a means of obtaining financial assistance.

The Ford administration evaluated Callaghan's letter, and particular attention was given to his suggestion that the US should pressure the IMF into giving Britain less stringent loan terms. Ford's economic advisers were deeply sceptical about pursuing such a course of action. Throughout the 1970s, large reports received from the US ambassador in London had been sent to the State Department expressing concern about Britain's economic plight.[49] Recent events only confirmed the suspicions of prominent US economic policy-makers, such as Simon, Yeo and Burns, that Britain had to enact serious economic reforms. Such measures would include a reduction in the PSBR, a cut in public expenditure and a tightening of monetary policy (which an IMF loan would all be conditioned upon). Accordingly, they advised Ford that the US should refuse the British request to intervene in the UK–IMF negotiations.[50] Ford's political advisers agreed with this. As Scowcroft noted, 'It is clearly undesirable for us to become involved in negotiations with the IMF'. He reasoned that if the IMF was pressed into being 'more lenient on the UK,' it would likely see the Callaghan government refuse to make the necessary cuts in the PSBR. This would only 'postpone the inevitable crisis', because Britain's substantial levels of borrowing would remain.[51]

To support his case, Callaghan also arranged for a telephone conversation with Ford. Scowcroft prepared the president with a 'talking points' memorandum for this conversation, which again illustrated the US's disinclination to accept Callaghan's proposal for intervening in the UK–IMF negotiations.[52] As Scowcroft's talking points outlined, 'We will give our full support to whatever agreement is reached between the UK and the IMF'. He further made clear that the British government alone would have to reach an agreement with the IMF, and that the US should refrain from applying bilateral pressure on the IMF to advance Britain's cause.[53]

Though receiving this briefing, the president failed to precisely follow Scowcroft's advice during his telephone conversation with Callaghan. Rather than clearly articulating that the US would wait for the UK and IMF to reach an accommodation by strictly bilateral methods, Ford told Callaghan that his government would 'do whatever we can to be helpful'.[54] From the British perspective, the offer to 'do whatever we can to be helpful' was taken to mean that the US would use its influence with the IMF into providing lenient loan terms. Indeed, this is exactly the fashion in which Healey interpreted Ford's statement.[55] In Washington, however, the president's advisers made it clear they did not want to pursue such a course of action. One can infer that this was the belief of Ford also given that, if he did not agree with Scowcroft's advice, he would have asked for a different memorandum for his discussion with Callaghan.

Safety net

Having been chancellor of the exchequer during the 1960s, Callaghan was well acquainted with the fluctuations in the rate of sterling. He therefore saw the current difficulties as an opportunity to not only overcome the short-term fluctuations in sterling, but also as a means for ensuring its longer-term stability. For the immediate problem of sterling's significant depreciation, Callaghan envisaged Britain obtaining a safety net loan, which would be acquired from the G10 (though it would predominantly be financed by the US Federal Reserve and the West German Deutsche Bundesbank). The safety net would be designed as a means of easing any speculative pressures on sterling in the event that if sterling was being offloaded en masse, thus driving its value downwards, the British government could draw on this safety net to buy sterling and defend its value. The safety net would therefore provide a visible sign to investors that the currency could be defended from speculators, and offer investors the much-needed assurance that sterling was a stable currency in which to invest. In the longer term, Callaghan actually wanted to see the liquidation of sterling balances.[56]

On 1 November 1976, the IMF negotiating team, headed by Johannes Witteveen and Alan Whittome, landed in the UK to begin negotiations. Callaghan was determined to achieve parallel objectives. Negotiations with the IMF would establish the terms of a future loan to cover Britain's budget deficit and repay its international loans, and a safety net loan designed to protect sterling against future currency speculation would also be sought. Callaghan saw these two negotiations as intertwined, noting that 'it was important to get international agreement on the safety net/bond scheme in parallel with the IMF negotiations'. He also wanted the safety net loan to be announced simultaneously with the terms of the IMF loan.[57]

Callaghan's wishes were well understood in Washington, and his position was deemed an opportunity for the Ford administration to ensure that the UK agreed to the IMF's loan conditions.[58] As Scowcroft informed the president, Callaghan 'implied in this message the possibility that Britain might accede to the tough terms likely to be required by the IMF if agreement on sterling balances could be announced at the same time'.[59] With Kissinger also supporting Scowcroft's analysis, the Ford administration appeared quite confident that the British government would agree terms with the IMF.[60]

Callaghan, however, still wanted support from the Ford administration in obtaining preferential loan conditions from the IMF and information obtained from Helmut Schmidt, the chancellor of West Germany, suggested that this was a possibility.[61] Schmidt convinced Callaghan (and a number of his advisers) that the US would sanction the safety net loan prior to the finalisation of the IMF loan, and he was further advised by his private secretaries that appealing to the US on grounds of international security would yield results. For instance, during the Cabinet meetings which discussed the IMF negotiations, one of Callaghan's private secretaries noted to him that he was 'certain' that the tactic of reaching out to Ford and Kissinger would get Britain a 'safety net' prior to the conclusion of the IMF negotiations. Michael Palliser wrote in a similar fashion to Callaghan's principal private secretary, Kenneth Stowe.[62]

Following such confident advice, Callaghan attempted to use his relationship with Henry Kissinger as a means of ensuring the US would pressure the IMF into providing preferential loan conditions. The prime minister wanted Kissinger to ensure that the IMF negotiating team would not receive encouragement from US economic officials to demand stringent British spending cuts as a condition of any loan. It soon became apparent that such tactics were not producing the results that those in London had predicted. The British ambassador to Washington, Peter Ramsbotham, reported on his efforts with Kissinger, informing London that Kissinger wished to take a ‘compassionate approach’ towards Britain, but within the administration there existed a strong clamour for the IMF to demand stringent terms because the ‘needed’ economic changes would fail to be implemented otherwise.[63]

Certainly it was clear that Callaghan’s appeals were unlikely to convince the president’s economic team. Simon, Yeo and Burns wanted to keep the two loan negotiations separate, because they feared Britain would use the safety net as a substitute for the IMF loan. As a result, they demanded the IMF negotiations be concluded prior to any safety net being agreed.[64] The president largely agreed with such advice, and Ford had little inclination to apply the necessary leverage upon the IMF so they would provide preferential lending terms to the British government. As Ford wrote in a handwritten comment on 11 November 1976, ‘British Cab must accept IMF’.[65]

In contrast to Callaghan’s misjudgement of the Ford administration, Healey was much more in tune with American thinking. In Healey’s opinion, the US held a ‘totally uncooperative attitude’ and it appeared unlikely that the US government would support the safety net loan until the IMF negotiations were concluded. As for the IMF negotiations, Healey noted that the US was not placing any pressure on the negotiators to offer Britain less stringent terms.[66] Nevertheless, many of the outward signs emanating from the Ford administration appeared to contradict this. Kissinger was claiming to be ‘sympathetic’ yet Simon, Yeo and Burns were clearly less so. Yet, at the outset of the IMF negotiations Ford had personally informed Callaghan that he ‘would do whatever he can’ to assist the British. Not surprising then that policy-makers in London were confused about the likely course of US policy.

The apparent contradictions stemming from Washington led Callaghan to send Harold Lever, the chancellor of the duchy of Lancaster, as a personal envoy to the US. Lever, a self-made millionaire and former businessmen, was seen by Callaghan as something of an economics expert.[67] Callaghan again sought to utilise his relationship with Ford and Kissinger as a vehicle for mitigating the demands of the IMF, and wanted Lever to emphasise the repercussions for ‘the alliance’ if Britain had to accept the IMF terms.[68] Callaghan also backed up such attempts by directly contacting Ford by telephone, and again reiterated the negative consequences for the Western alliance if Britain was forced into enacting substantial public expenditure cutbacks.[69]

Douglas Wass, the permanent under-secretary at the Treasury, has questioned the logic of the Lever mission. According to him, Callaghan had been informed on several occasions that Britain would have to reach agreement on terms with the IMF prior to any safety net loan being granted. As shown above, this was undoubtedly the case, and Wass was certainly more attuned to the reality that the US was not going to pressure the IMF into providing less demanding loan conditions.[70] Scowcroft had advised the president against following such a course and Kissinger also reinforced such advice prior to Lever's visit.[71] Kissinger's advice was given even though he suspected it would lead to the collapse of the Callaghan government![72] Callaghan's judgement, that appealing to the political masters in Washington would be met with more sympathy, was clearly misguided. US policy-makers both in the political and the economic realm were in complete agreement that the US would not involve itself in the UK–IMF negotiations.

The Lever mission

Harold Lever flew to Washington and met with Henry Kissinger and, following the instructions of the prime minister, he attempted to link the nature of the IMF loan to Britain's existing security commitments. Lever argued that the IMF's demands would result in a critical reduction in Britain's defence expenditure, which, in turn, would severely damage NATO, and undermine broader US security interests.[73] Kissinger's response indicated that he was less than convinced by such an argument, and he informed Lever that both he and the president supported the idea that Britain had to reduce its PSBR and would have to achieve this by reducing its public expenditure. Clearly this was unwelcome news for the British government. Kissinger did, however, offer a caveat of hope when he suggested that the level of public expenditure cuts would be mitigated by 'political considerations'. Added to this he also gave his support for the safety net loan. As Kissinger told Lever, he was going to push the 'political aspects' of the situation, and try to convince Simon, Yeo and Burns to provide the safety net once the IMF loan had been agreed.[74]

As with most international events, Kissinger's thinking was dictated predominantly by political, rather than economic, considerations. Ultimately, on this occasion, Kissinger did not feel Britain was important enough to warrant US interference in the UK–IMF negotiations. He did, however, conclude that the safety net was needed in order to restore confidence in Britain's currency. Furthermore, this approach demonstrated the consistency behind Kissinger's thinking. For instance, during the Italian IMF negotiations in the summer of 1976, Kissinger had been keen to ensure that it was 'not simply economic conditions' that mattered in an overall settlement.[75] From the British viewpoint, it was perhaps rather worrisome that they were to receive little more assistance than Italy had from the US, in spite of efforts by the Wilson and Callaghan governments to nurture close US–UK relations.

By utilising Kissinger, Callaghan had attained some minor achievements. As Kathleen Burk and Alec Cairncross have noted, Lever was able to secure US agreement to help provide the safety net.[76] Critically, however, Arthur Burns remained unconvinced. Moreover, Yeo was making it known to the West Germans that he wanted to see the IMF demand substantial PSBR cuts from Britain.[77] Given this then, the Lever mission must be deemed a failure, because Callaghan wanted the 'political considerations' placed at the forefront of the IMF debate so as to temper 'the orthodoxy of the monetarists'.[78] Callaghan was still hoping that the Lever mission would convince the US to use its influence with the IMF negotiating team in London. As seen above, Lever's mission did not accomplish this. Even Kissinger, believed by Callaghan to have most clearly understood the wider political implications of the IMF loan, refused Callaghan's wishes. Therefore, on 24 November 1976, Callaghan was informed that Kissinger would not intervene in the UK–IMF negotiations.[79]

To compound Callaghan's predicament was the clear indication he received from Washington that the US was unlikely to support the simultaneous conclusion of the IMF and safety net loans. While Kissinger had informed Lever that he would support this, those authorised in Washington to implement such a deal (Simon, Yeo and Burns) were unwilling to undertake the necessary procedures to create this.[80] The hope that Kissinger could overrule this opposition was dealt a blow by Ford's election defeat to Jimmy Carter. Kissinger was soon to be out of office and his ability to influence other actors, especially the likes of Arthur Burns who did not rely on the president for his position as chairman of the Federal Reserve, was reduced.[81]

Callaghan could also be in no doubt that American approval for the safety net was conditioned upon Britain concluding terms with the IMF. The IMF negotiators had made it clear that, if Britain was to receive an IMF loan, it would have to enact public expenditure cutbacks. Callaghan thus convened his Cabinet, where he attempted to convince them of the necessity to accept a loan with such stipulations. As he explained to his colleagues, whilst 'good will' existed in the US, a 'general view' existed that Britain had to make significant cuts in its PSBR if a loan was to be granted. However, the level of the PSBR reduction was still something to be debated within the Cabinet.[82]

At the end of these Cabinet meetings, Callaghan authorised Healey to negotiate a loan agreement with the IMF that would involve a cut in the PSBR from

£12 billion to £9.5 billion for FY 1978–79. This would involve public expenditure cutbacks of roughly £1.25 billion for FY 1977–78 and 1978–79. Healey, however, disagreed with Callaghan's proposals. As he had been negotiating with the IMF, it was evident that a reduction in the PSBR to £9.5 billion fell short of the IMF's expectations. Witteveen for instance had informed Healey he wanted Britain to reduce its PSBR to £8.8 billion by FY 1978–79.[83] Added to this, the IMF had made it known publicly that a reduction of £3 billion was what it were aiming for. Healey believed he would be able to negotiate the figure slightly downwards, and suggested he would target a PSBR of approximately £9 billion. Such advice was ignored and Callaghan assured his Cabinet that he would utilise his relationship with President Ford to ensure an agreement was reached at £9.5 billion.[84]

Callaghan's bravado in front of his Cabinet colleagues did not accurately reflect his real level of influence in Washington. As US policy-makers were aware, Callaghan would likely again seek to convince the president to interfere in the IMF negotiations and were thus preparing contingency plans for this. Accordingly, Brent Scowcroft and Alan Greenspan once again warned Ford against agreeing to support any British request to pressure the IMF into providing less stringent loan conditions.[85] This course of action was pertinent given that Callaghan would again telephone the president and ask for assistance. In spite of Callaghan being 'tough with Ford', he again came away with nothing of substance.[86] As Ford had decided prior to Callaghan's call, Britain's PSBR had to be cut below £9.5 billion.[87] Other last ditch efforts from British officials to get the president to change his mind were equally fruitless.[88]

Callaghan had to return to the Cabinet and inform them that he could not deliver on his £9.5 billion target. The Cabinet now debated the best course of action. Healey reported that his discussions with the IMF indicated that reducing the PSBR to a figure of £9 billion was deemed insufficient. He therefore proposed that he should seek agreement with the IMF to reduce the PSBR to £8.7 billion for FY 1977–78, and £8.6 billion for FY 1978–79. These cuts would be supplemented by the sale of British petroleum (BP) shares that were worth in the region of £500 million.[89] Healey, however, encountered stern opposition from his colleagues and the Cabinet was split into three main factions. One group supported Healey's proposal to reduce the PSBR and sell the BP shares. One opposing faction was headed by Crosland, who argued that such a reduction in the PSBR could not be accepted and proposed that Britain enact a 'leverage' strategy. By this, he meant that Britain could threaten to withdraw from NATO or enact trade tariffs, unless US pressure was placed on the IMF to lessen its demands.[90] The final faction within the Cabinet was led by Michael Foot. This group, which included Benn, Shore and Minister of State for Social Security Stan Orme, argued that Britain should refuse an IMF loan with such conditions and should instead implement trade tariffs in order to raise additional funds for the Treasury and thus protect public expenditure. Benn, in a moment of flamboyance, noted that if Callaghan accepted the IMF terms it would be the 'political tomb for the Government'.[91]

The extent to which the Cabinet was divided was openly speculated about throughout the media, and one newspaper even suggested that Healey was on the verge of submitting his resignation.[92] Regardless of the Cabinet's apparent division, the prime minister was confident that if he decided upon a course of action he would have the numbers to push it forward. While reluctant to do so, Callaghan decided that he would have to support his chancellor's proposals.[93] Efforts to convince the US had failed and pursuing the alternative strategies appealed little to Callaghan. Crosland's proposal to threaten NATO withdrawal was deemed too dangerous a course to pursue and, moreover, when similar suggestions had been made subtly, they had failed to make any discernible impact upon US policy. More significantly for Callaghan, he believed that agreeing to the IMF loan would guarantee a quick settlement on the safety net loan, which in his opinion was more important than the actual IMF loan. Therefore, the idea of erecting trade tariffs which would antagonise the international community and likely prevent a G10-sponsored safety net loan would simply contradict his wider objectives.[94] Following heated Cabinet discussions Callaghan won support for Healey's proposals and, following tense negotiation with the IMF, the terms of the loan were settled. Callaghan agreed to reduce Britain's PSBR to £8.7 billion for FY 1977–78 and £8.6 billion for 1978–79, and BP shares worth approximately £500 million were also sold to help reduce Britain's PSBR.[95]

Even if one is exceedingly charitable towards Callaghan, it cannot be ignored that his tactic of appealing to the US for assistance had failed. Compounding this was the fact that it was public knowledge that both President Ford and Chancellor Schmidt had rebuffed his efforts to obtain financial assistance.[96] Throughout the negotiations, Callaghan had been told on numerous occasions that no US interference in the UK–IMF negotiations would be forthcoming, yet this was seemingly ignored.[97] Why the prime minister ignored this advice is curious. Perhaps Callaghan believed Britain's political significance in relation to the US would have resulted in preferential economic treatment. Certainly, Britain – despite its defence reductions in 1974–76 – retained its nuclear and intelligence relationship with the US. However, Callaghan had witnessed American displeasure at Britain's defence cuts, and he must have realised how much the US believed that the UK had declined in importance given that Kissinger had told him as much on several occasions.

Perhaps, therefore, Callaghan's situation within the Labour Party better explains his determination to stubbornly cling to the idea that he could influence US policy. Callaghan was a firm believer in the social contract with the trade unions, and he knew that breaking with the trade unions would severely damage Labour's electoral and financial situation. The terms of the IMF loan would enforce deflationary measures on the British economy, which meant that public expenditure cutbacks would be invoked and would inevitably lead to job losses. For the trade unions, this was a deeply unpopular policy, and Callaghan therefore had to reduce the IMF demands in order to mitigate trade union disgruntlement. Accepting the IMF terms without even attempting to make them less stringent would have seriously undermined Callaghan's political position.[98]

Of course, this line of argument should not be taken too far. Edmund Dell, the secretary of state for trade, has made a convincing counter-argument which suggests that Callaghan could always convince his Cabinet to follow his lead, simply because the collapse of the Labour government would have led to Margaret Thatcher's Conservative party – which would have implemented the PSBR reductions on a larger scale – obtaining office. Indeed, during the crisis itself Thatcher was publicly talking of the need for much larger scale reductions in the PSBR in order to ward off the bailiffs.[99] Given this, for the left wing of the Labour Party to have brought down the Callaghan government would have been a futile effort to prevent the PSBR cuts. For Dell, therefore, arguments that Callaghan's room to manoeuvre was prohibited by his domestic position are unconvincing.[100] Interestingly, this is exactly what one of Callaghan's private secretaries advised him at the time.[101] However, by presenting himself in opposition to Healey's more demanding PSBR cuts, Callaghan managed to escape the full vitriol of the Labour Party. Instead, it was Healey who was largely blamed for having forced through the IMF terms.[102] This, as the archival record now suggests, is an unfair categorisation.

Obtaining the safety net

Although the issue of obtaining the safety net remained unresolved, Callaghan envisaged that it would be announced simultaneously, or very soon after Britain publicly announced its application for an IMF loan. He also wanted the safety net to be in the region of $3.5 billion.[103] Callaghan agreed to the terms of the IMF loan on the proviso that the safety net would be swiftly granted, and this was certainly the impression Ford had given to Callaghan.[104] Ford remained unconvinced as to whether the US should agree to such a loan but, by 3 December 1976, Ford had been persuaded by Kissinger that Britain should be granted the safety net loan, as long as Britain agreed terms with the IMF. Ford therefore instructed William Simon to undertake the necessary preparations for providing the safety net loan.[105] This was reported to London, but the British ambassador in Washington warned against placing too much confidence in Ford.[106] As he explained, the president could not guarantee the safety net because it was not his constitutional authority to do so; rather, this decision would come about at the behest of the US Federal Reserve. It was Chairman Arthur Burns, and not President Ford, who was the man who would have final authority over providing the safety net. This was a point that would become of supreme importance in the following weeks.[107]

The prime minister expected stern opposition from the US Treasury and Federal Reserve against providing the safety net, and his mood consequently deteriorated. In a handwritten note Callaghan scrawled, 'Do [the] US … want us to do this with consequences?'[108] What these consequences were soon became apparent as British officials in discussion with their NATO counterparts suggested that substantial defence cutbacks would likely be enacted if significant financial support was not forthcoming. Subtle suggestions within this context, however, failed to significantly alter American policy.[109] Callaghan therefore decided to analyse whether invoking Britain's Western security commitments more explicitly with the Ford administration would persuade the US to offer the necessary financial support. He ordered John Hunt and Michael Palliser to provide him with a survey of British defence commitments, and from this he wanted to know whether threatening the cancellation of such commitments would engender a more cooperative attitude from the US.

Hunt and Palliser produced this for the prime minister and outlined several possibilities, which included the abandonment of the British nuclear deterrent and the cancellation of the Chevaline improvement to Polaris.[110] Further ideas ranged from a total withdrawal from Cyprus or a reduction in Britain's BAOR commitments to a complete abandonment of Britain's extra-European military capabilities. Hunt and Palliser concluded that a complete withdrawal from Cyprus or the disbandment of Polaris were the only measures likely to influence US policy.[111]

John Hunt was in a very good position to make such judgements given that he had witnessed first-hand the American aversion to seeing Britain withdraw from Cyprus, or perhaps scrapping its update to Polaris.[112] Hunt, however, warned about the wisdom of using such tactics and the biggest problem he noted was the fact that the British were still, at this juncture, negotiating the final terms of the PSBR reduction with the IMF. An argument employed by the British government against reducing the PSBR much below £9 billion was that they were committed to retaining costly defence projects. If Britain threatened to cancel these, then the IMF could potentially demand Britain make an even greater reduction in its PSBR.[113]

While the British government debated its own course of actions, events in Basle, where representatives from the G10 were discussing the structure of the proposed safety net, were coming to a conclusion. Healey reported that the US delegation was taking a line far from the 'sympathetic' one that Ford had promised and noted that the US was reluctant to agree to any safety net loan.[114] The US now reasoned that, since Britain had concluded its IMF loan, market confidence in sterling had been restored and it was now unnecessary to provide a loan to defend the rate of the sterling.[115]

Although Callaghan had been provided with a number of alternative areas in which to exert political leverage upon the US, he decided not to use them. Perhaps the late advice received from John Hunt convinced the prime minister against pursuing such a course.[116] Instead, Callaghan wrote directly to Ford, arguing that the safety net was imperative to restore market confidence in sterling.[117] Callaghan also sought to use his relationship with the West German chancellor, Helmut Schmidt; he wanted Schmidt to convince Ford that the safety net should be given to Britain. Schmidt obliged, and wrote to Ford on 12 December arguing Callaghan's point.[118]

Very little appears to have come from Schmidt's efforts to convince Ford to provide a safety net to Britain, and reports from Washington suggested that the US would refuse to sign up to a G10 safety net loan. Derek Mitchell, the deputy permanent under-secretary at the Treasury, reported that both Burns and Yeo remained reluctant to support the safety net.[119] Callaghan attempted to circumvent such opposition by appealing to Washington's political elites, and Ramsbotham was tasked with persuading Kissinger and Scowcroft that they should convince Ford to overrule Burns and Yeo. The British ambassador had some success as Scowcroft agreed to speak with Yeo and make him more 'reasonable' and he promised to get Kissinger to 'weigh in' his support for providing the safety net.[120] Ramsbotham remained pessimistic as to whether this would achieve much and repeated his earlier warnings that it was Burns' constitutional right, and not Ford's, to agree to the safety net.[121]

Ramsbotham's assessment was astute given the turn of events that would transpire in the following days. While Ford had ordered the US to sign up to the safety net, the US delegation in Basle simply ignored this and continued to present counter proposals to that of the safety net. Thus, progress in finalising the safety net was being prevented by the US.[122] The British once again looked to Kissinger and Scowcroft for assistance and Ramsbotham liaised with both. However, both appeared rather uninterested in the safety net negotiations and Kissinger went on to claim that he did know what the US delegation was up to, and merely reiterated that Ford had given his backing to the safety net.[123] Kissinger was not being disingenuous as Ford had ordered the safety net to be granted, but the US Federal Reserve and Treasury continued to block approval for it at the Basle negotiations.

Following heated debate in Washington, Burns and Simon succumbed to the wishes of the president and American agreement for the safety net was transmitted to the British.[124] Though US approval for the safety net had finally been given, the actual details of the safety net would still have to be worked out and this would obviously take some time.[125] In the interim, Ford offered public support for the British IMF agreement which came about at Kissinger's suggestion. Indeed, Kissinger noted that Ford had never intended to 'weasel' out of the safety net commitment, but that he had been constrained by his constitutional role vis-à-vis the Federal Reserve.[126] The president, Kissinger and Scowcroft all realised that Callaghan would be 'disappointed' with this, and this was clearly the case as Callaghan again floated the idea of sending a recriminatory letter to Ford.[127] Douglas Wass claims that Healey had 'to beg [Callaghan] not to send such a message to President Ford'.[128] Healey's efforts paid off, and Callaghan's letter to Ford illustrated none of the frustration that the prime minister felt.[129]

The final safety net was secured in the second week of January 1977.[130] The US would initially allow Britain to draw up to $250 million from a safety net of $3 billion. This agreement, however, came with a number of caveats. The British could only draw on this fund on condition that the PSBR reductions agreed with the IMF were implemented.[131] At the very least, Callaghan had obtained the safety net which he felt was imperative for Britain's long-term economic well-being. Nevertheless, the safety net was loaded with a number of conditions that Callaghan had sought to avoid. It had also failed to be delivered at the time he believed was economically necessary, and politically convenient to stave off domestic criticism. For Callaghan, then, this had been a politically calamitous affair.

Moreover, the IMF crisis demonstrated the lack of influence which the prime minister had with the Ford administration. Callaghan had spent considerable effort in trying to garner a warm relationship with both the president and Henry Kissinger, in order to *influence* US policy. As Callaghan claims within his memoirs, this was something which he believed he had achieved, and this is something that both Ford and Kissinger corroborate in their own retrospective accounts of their relationship with Callaghan.[132] Regardless, throughout the IMF crisis, Callaghan's personal relationship did little, if anything, to alter the course of US policy along lines more amenable to his wishes. Even when Kissinger suspected that the Callaghan government could fall as a result of the IMF terms, it did not alter US policy. In fact, the biggest concern for Kissinger was to avoid the impression that the Ford administration had caused the Callaghan government to collapse. As he noted to the president, it was imperative that the image of 'sinking the British' was not attributed to the Ford administration.[133]

Personal relations, therefore, were secondary to broader considerations. When Kissinger would talk about not being a 'sentimental' person, it clearly applied to the conduct of US–UK relations in spite of public statements to the contrary.[134]

US–UK relations within the economic context

There has been considerable debate over the reasons for US policy taking the course it did throughout the IMF crisis. Some writers have suggested that Ford's electoral defeat to Jimmy Carter in November 1976 undermined his authority. As such, an unelected president who was sympathetic to Britain's predicament was unable to exercise his authority vis-à-vis the Federal Reserve and Treasury.[135] Callaghan, in his memoirs, provided a similar analysis.[136] Certainly, throughout the crisis, Kissinger used the impending election as a reason why the US could not be seen to be placing pressure upon the IMF.[137] Others, however, have dismissed this explanation.[138] This latter interpretation is much more convincing because, as the documentation in the Ford Library shows, Carter's election did not constrain Ford in his foreign policy-making. Even if Kissinger saw the election of 1976 as a potential problem in aiding the British, he admitted that once it was over he would be a lot freer to tackle the issue.[139]

Instead, other factors better explain US policy. The first point to remember was that the fashion in which the Ford administration dealt with Britain's IMF application would have ramifications in other areas in the world, most notably in regard to the IMF applications being made by Mexico and Italy.[140] The Ford administration was consistent in the advice it offered to Mexico, Italy and Britain: public spending had to be curbed in order to bring down the level of borrowing each power undertook in order to generate economic productivity; only by doing this would speculative pressures on their respective currencies come to an end. Along with this, the Ford administration was concerned that pressuring the IMF into providing beneficial loan terms for Britain would establish a worrying precedent for future IMF bailouts.[141]

Callaghan's policy of linking Britain's defence commitments to the IMF loan also failed to have a discernible impact upon the course of US policy, and was largely ineffective for several important reasons. First, Britain's global importance to the US as a military ally had steadily declined throughout the past 20 years. The most dramatic demonstration of this was the East of Suez withdrawal, but, as shown in earlier chapters, the 1970s had witnessed further defence retractions that had severely dented Britain's standing in Washington. Added to this was the important fact that key policy-makers in Washington believed that the UK would likely reduce its military commitments still further.

By the summer of 1976, such fears were proved correct as the British issued a defence white paper which outlined further reductions. Such action hardly enamoured the British to the Ford administration.[142]

In response to this latest defence cutback, Roy Mason promised Donald Rumsfeld, the US defense secretary, that this would be the final cutback for the foreseeable future.[143] Throughout 1974–76, other British policy-makers had made similar promises, but had then gone on to break them. Clearly then, Mason was stretching credibility when he made such assurances. This is an important point to remember when understanding the Ford administration's policy. In 1965–67, sterling came under speculative pressures, but the Johnson administration provided the demanded economic support. This was done partly to ensure that Britain retained its presence East of Suez.[144] In 1976, Britain was no longer East of Suez, and Wilson's last two governments had further reduced Britain's military commitments. By 1976, Britain's importance for the US had waned significantly, and its status as the key military ally in Europe had arguably been eclipsed by that of West Germany. In April 1976, General George Brown, the chairman of the joint chiefs of staff, symbolised just how far the UK's significance had fallen in American military opinion, when he expressed that the military of the UK was 'pathetic' and consisted of nothing more than 'generals and admirals and brass bands'.[145] This perhaps overstates the degree to which the UK had fallen in official US thinking, but the fact remains that the UK no longer assumed the level of importance that it once had.[146]

British threats of curtailing its military commitments were also less credible than in previous years. Making further military reductions was thus seen to have the potential to undermine vital British security interests. In particular, a reduction in the BAOR would have negatively impinged upon NATO, and would also have undermined the ongoing MBFR negotiations.[147] As Hunt reminded Callaghan throughout the IMF negotiations, reducing the BAOR would set in motion the 'dismantling of NATO'.[148] Perhaps Hunt was being slightly melodramatic, but if Callaghan had threatened such a course – and perhaps even enacted such measures – it would have had significant ramifications for British policy. In the final assessment, Callaghan was not prepared to risk this.

Another point of significance is that within the US documentary record it is remarkable just how little time was spent discussing possible British military reductions as a consequence of an unfavourable IMF loan. Perhaps, then, this can be interpreted as a sign of just how un-credible such threats were viewed in Washington or, worse still for the British, just how unimportant they were deemed in American eyes. While it would be too harsh to suggest that 'Britain no longer mattered … as a world power or as a political example', it was evident during the IMF crisis that Britain no longer mattered enough to constitute preferential economic consideration from the US.[149]

One crucial factor does remain however, that being that Callaghan never tried to extract US cooperation by issuing threats pertaining to Britain's most important defence contributions. The most obvious examples were Britain's Polaris force, its intelligence stations in Cyprus and the Indian Ocean, the American bases located in Britain and its BAOR commitment. These were seen by British policy-makers as areas which promoted US interests and the American reaction to the Wilson government when it suggested that it would cancel or reduce such things indicated this was so. An interesting counterfactual therefore presents itself. Whilst it would be foolhardy to suggest that, had such a tactic been utilised, the Ford administration would have immediately pressured the IMF into proffering less demanding loan conditions, it is worth considering whether Crosland's 'leverage' strategy would have been more successful. Given that key US policy-makers believed that American primacy in international affairs was being severely challenged and that Southern Europe was succumbing to communist influence, then perhaps Callaghan would have obtained the type of assistance he desired had he followed Crosland's more bellicose strategy. However, as noted earlier, there was very little discussion in Washington about the British actually implementing such drastic cutbacks. This could either indicate that such matters were deemed so unlikely as to warrant discussion, or perhaps these interests were not deemed that important by the Americans.

Economic thinking

The economic philosophy of key US officials in the Treasury, Federal Reserve and in Ford's government was of course highly important in determining US policy throughout the IMF crisis. The likes of Arthur Burns, Edwin Yeo, Alan Greenspan and William Simon were ardent fiscal conservatives.[150] Simon was described by Denis Healey as somewhere 'to the right of Genghis Khan'.[151] Michael Palliser described the American administration less dramatically for the prime minister when he noted that they were in a 'fundamentally conservative mood'.[152] Such British assessments were largely accurate if the private papers of American officials are anything to go by. In one example from Simon's private correspondence, he bemoaned American fiscal policy for resembling a 'socialist' agenda. If such a course was not reversed, then Simon predicted that 'socialism' would take hold in the US.[153] Socialism was clearly used by Simon as a pejorative term in this context.

Ford's other economic advisers were just as disdainful about Britain's economic position. Greenspan and his staff for instance provided damning verdicts on Callaghan's economic policies. Further to this, information received by Greenspan from his staff about the British government's economic policies was usually laced in negative or sarcastic commentary. Robert Hormats was equally critical of Britain's economic performance. Some outside of government – such as Milton Friedman, the influential economist at Chicago University – publicly predicted Britain would become the European equivalent of Chile. Given the predicament of Chile in the mid-1970s, this was clearly not meant as a favourable comparison.[154] In sum, the medicine that the IMF was prescribing was fully endorsed by the economic masters in Washington.

On the safety net issue, the role of the US Federal Reserve was even more important. Constitutionally, it was the purview of Arthur Burns to commit the US to the safety net. Therefore, appealing to the president, whilst not inconsequential, was no guarantee for securing the safety net loan. The president, Kissinger and Scowcroft were fully aware of their lack of control over the Federal Reserve.[155] As William Simon told Kissinger, 'I will have to get with Arthur Burns because in the final analysis that is where the buck or pound goes'.[156] If Callaghan was to get US assistance then convincing the likes of Simon and Burns was just as important as securing the support of Ford or Kissinger. Ultimately, Burns and Simon were unconvinced that Britain should receive preferential treatment from the IMF, and British diplomacy failed to convince them to alter their position.

There has been a tendency by former British officials to paint the likes of Simon, Yeo and Burns as the bogeymen who scuppered British hopes of negotiating more lenient IMF terms, and subsequent writers have followed suit.[157] While not inaccurate, it does omit several important points, and the biggest of these is that Ford himself was fiscally conservative. Therefore, the idea of providing bailout money to a country or institution deemed to be 'living beyond their means' did not sit well with the president. Balanced budgets, reduction of deficits and free markets were the key to economic success in Ford's assessment. The president articulated this vision when he stated: 'I propose that we make a substantial and permanent reduction in our Federal taxes, and second that we make a substantial reduction in the growth of federal spending.'[158] During the New York City financial crisis of 1975, Ford would demonstrate his adherence to such principles. The city had, in a similar fashion to the British government, extended all of its available credit lines and requested assistance from the Federal government in order to meet its spending commitments. Ford refused this appeal and the city had to make sweeping public expenditure cuts in order to balance its budget.[159] Accordingly, British appeals to Ford for economic assistance were always likely to be met with reluctance.

Perhaps even more important was the fact that Ford's government never accepted the economic arguments put forward by Callaghan and Healey: that was, Britain's economic problems originated from short-term speculative pressures on sterling and 'malignant interaction between the exchange rate, the money supply and interest rates'.[160] This line of argument was deemed unconvincing in Washington because US policy-makers believed that Britain's problems stemmed from long-term structural imbalances within its economic system. The intellectual tide of monetarism, and all that entailed, challenged the largely Keynesian remedies which the British government was proposing.[161] Britain was judged to have too high a rate of taxation which stifled economic productivity. Its trade unions were considered to be too powerful, which resulted in too many working days being lost due to strikes. Britain's social security system was regarded as having been inflated beyond the country's capacity to finance it.[162] As William Simon noted in correspondence with Lord Hartwell (the owner of the *Daily Telegraph* newspaper which attacked his conduct throughout the IMF crisis), it was the economic mismanagement by successive British governments which had led to Britain's current predicament.[163]

More damning was that Ford's economic team did not trust the Callaghan government to implement the economic reforms it promised it would enact if it was provided with additional credit to help finance its sterling balances. As Yeo noted:

> From a technical standpoint we have examined the various ways this could be done [providing a 'safety net' loan for sterling]. But from a policy standpoint a substitution account means additional credit, probably of an unconditional nature, for the UK. A proposal or feeler on a substitution account would support the view that the UK still does not appreciate the gravity of its situation and/or lacks the will to deal with it in terms of substantive policies.[164]

Such opinions were not exclusive to Ford's economic advisers. The IMF itself was so sceptical about Callaghan's government implementing the promised expenditure cuts that it would only provide the loan in instalments, with each additional one conditioned on the necessary cutbacks being enacted.[165] Those who were believed to be sympathetic to Britain's predicament were also critical of its economic policies. David Bruce, the former US ambassador to the UK, who was viewed as somewhat of an Anglophile, told President Ford that Britain suffered from 'fundamental problems'.[166] The people that Callaghan used throughout the IMF crisis to mitigate the demands of the IMF – for example, Kissinger and Scowcroft – were of the same opinion.[167]

In sum, the key actors within the Ford administration believed that the economic measures demanded by the IMF were necessary to prevent future British economic problems. Furthermore, there was an entrenched belief that, if the British were not given the strictest of terms by the IMF, then it was unlikely that Callaghan would ever implement the economic changes which Washington deemed necessary.[168] Given such conditions, it was always likely that Callaghan's calls for US financial support would fall on deaf ears.

Conclusion

Callaghan's first ten months in office were dominated by Britain's economic crisis. The re-establishment of the Atlantic relationship at the centre of Britain's foreign policy, which began when Callaghan was foreign secretary and continued throughout his premiership, was unable to produce the type of results he desired during the IMF crisis. Such criticism needs to be issued with a caveat, which is that given President Ford's fiscally conservative nature it was always going to be difficult to obtain an IMF loan without making what Ford believed were necessary cuts in Britain's PSBR.

Even though he had won the safety net, Callaghan had clearly been outmanoeuvred by Washington's economic masters. Britain had to accept the terms demanded by the IMF in spite of a great unwillingness to cut the PSBR. Callaghan, however, had envisaged that once the IMF agreement had been settled the British would be granted the safety net. Callaghan regarded the safety net as the most important matter; he had, for instance, even refused to implement import tariffs as a means of ensuring the good will of the international economic community. Yet, despite obtaining the safety net, this was only achieved following arduous negotiations; it was nowhere near the size Callaghan wanted, and was delivered a month later than he had envisaged.[169] Whilst a little unfair, the sentiments expressed by one British national newspaper that 'Jim and Denis play IMF Tune Dance of the Puppets', does capture the British situation nicely.[170] In the final assessment, Callaghan had to yield to the demands of the IMF and implement austerity measures upon the British economy.

It is certainly apparent from Callaghan's papers that he believed Britain's importance as an ally to the US to be sufficient enough to force the US to restrain the demands of the IMF. Callaghan's appeals to the likes of Ford, Kissinger and Scowcroft demonstrated this line of argument, yet this ultimately failed to deliver the kind of results he wanted. His investment in close US–UK relations failed to materially manifest into political capital when it was most needed during the IMF crisis. It is difficult to disagree with Kathleen Burk's opinion that: 'Britain had … been humiliated, not only because this was the first case of a modern industrial country turning to the IMF for this type of loan, but also because she was treated the same way as any other indigent country.'[171]

Though British elites clearly had little influence over their American counterparts, the fact remained that the institutionalised aspects of US–UK cooperation – notably in the security/defence realms – continued and, in other areas, US–UK interaction functioned smoothly. For instance, the US and UK worked efficiently in evacuating their citizens from Lebanon in June 1976, and ongoing diplomatic cooperation continued over the future of Rhodesia.[172] This even saw Kissinger trying to alleviate domestic troubles for Callaghan vis-à-vis criticisms emanating from Margaret Thatcher. Kissinger went as far as to provide a brief for Thatcher so she would understand the situation more fully and would, accordingly, lessen her criticism of the Labour government. As Kissinger put it, 'I thought it would be a good idea if Rogers briefed Mrs Thatcher – to get her off Crosland's back'.[173] Likewise, the visit of Queen Elizabeth II to celebrate the bicentennial of the founding of the United States was an occasion which was marked with great fanfare and gave the public impression of close US–UK relations.[174]

This presents an interesting paradigm for historians in assessing the US–UK relationship during the Ford–Callaghan era. If one looks at the IMF crisis, it becomes apparent that Callaghan never received the type of support from Ford that he believed Britain warranted because of its position in the Western alliance. Alternatively, if one focuses upon the ongoing security–military relationship then one can see a rather different impression. Ultimately, however, one must view this period for US–UK relations as one where the disparities in their respective international positions were more apparent, and when a number of longer-term trends in British foreign and defence policy began to have profound effects on US–UK interaction. British defence commitments since World War II had gradually been reduced and the East of Suez withdrawal had markedly altered Britain's position as a global actor. Britain's economic policies were also viewed unfavourably and, by 1976, there was a clear sense throughout US policy-making circles that Britain had to undertake a series of austerity measures, because it had an overinflated public sector, coupled with an unproductive private sector. Callaghan thus inherited a set of circumstances that made any appeal for US assistance throughout the IMF crisis likely to be met with a less than enthusiastic response. As events unfolded throughout the year, he found this to be the case.

Notes

1 Simon, *Reflection*, pp. 152–3.
2 Joe Haines, *Glimmers of Twilight: Harold Wilson in Decline* (London: Politico's, 2003), p. 116. On Wilson's health see: David Owen, *In Sickness and in Power: Illness in Heads of Government during the Last 100 Years* (London: Methuen, 2008), pp. 84–5.

3 This was what one newspaper dubbed Callaghan. See: *Evening News*, 5 April 1976, p. 1. On Callaghan's rise to power, see: Paul Deveney, *Callaghan's Journey to Downing Street* (Basingstoke: Palgrave Macmillan, 2011).

4 Morgan, *Callaghan*, pp. 588–60.

5 Gaddis, *The Cold War*, pp. 171–94; Gerald Ford, *A Time to Heal: The Autobiography of Gerald R. Ford* (New York: Harper and Row, 1979), pp. 209–407.

6 On the centrality of 'credibility' to the British government's entire economic strategy see: Ben Cliff and Jim Tomlinson, 'Negotiating Credibility: Britain and the International Monetary Fund, 1956–1976', *Contemporary European History*, 17:4 (2008), 545–66.

7 Kathleen Burk and Alec Cairncross, *Goodbye Great Britain: The 1976 IMF Crisis* (New Haven: Yale University Press, 1992), pp. 1–10. For an explanation on the safety net loan, see: Catherine Schenk, *The Decline of Sterling: Managing the Retreat of an International Currency, 1945–1992* (Cambridge: Cambridge University Press, 2010), pp. 368–77.

8 Burk and Cairncross, *Goodbye Great Britain*, pp. 1–10.

9 Donoughue, *The Conduct of Policy Under Harold Wilson*, pp. 83–4; Wilson, *Final Term*, pp. 234–6; Healey, *My Life*, pp. 372–427.

10 Quote in Pimlott, *Wilson*, p. 724. Statistics from Burk and Cairncross, *Goodbye*¸ pp. 14–15.

11 TNA: PREM 16/796 Sir Kenneth Berrill to the Prime Minister, 3 June 1976.

12 From the President to the Prime Minister via the Cabinet Line, 24 September 1974, File: Outside the System Chronological File 9/20/74–9/24/74, National Security Adviser Outside the System Chronological File 1974–1977, Box 1, GFL; Memorandum for the President from Henry Kissinger, 21 September 1974, *ibid.*; Message from the Prime Minister to President Ford, 18 September 1974, *ibid.*

13 For this being mentioned see: TNA: PREM 16/796 Note of a meeting between the Prime Minister and the Chancellor of the Exchequer, 4 June 1976; TNA: T 386/15 Note for the Record, 10 June 1976.

14 TNA: T 386/69 Note of a Working Dinner at No. 11 Downing Street, 2 November 1975.

15 TNA: PREM 16/796 Note for the Record, undated (circa June 1976).

16 Hormats has written widely on the problems of global finance and financial institutions. See: Robert D. Hormats, *American Albatross: The Foreign Debt Dilemma* (New York: The Century Foundation, 1988); Robert D. Hormats, *Reforming the International Monetary System: From Roosevelt to Reagan* (Washington DC: Foreign Policy Analysis, 1987).

17 Memorandum for Brent Scowcroft from Robert Hormats, 17 March 1976, File: Outside the System Chronological File 3/5/76–3/30/76, National Security Adviser Outside the System Chronological File, Box 4, GFL.

18 Memorandum for Alan Greenspan from Brent [Scowcroft], 24 February 1976, File: CO160-1/1/76–2/29/76, White House Central Files Box 57, GFL; Memorandum for Brent Scowcroft from Mr Clift, 20 February 1976, File: CO160-1/1/76–2/29/76, White House Central Files Box 57, GFL.

19 TNA: PREM 16/796 Note for the Record, undated (circa June 1976).

20 TNA: PREM 16/796 Sir Kenneth Berrill to the Prime Minister, 3 June 1976.

21 Media opinion summarised for Arthur Burns: Additional Press Coverage of $5.3 billion stand-by Credit, within AmEmbassy London to Treasury Department Washington

DC, Tel. EO 11562, File: Bank of England 1976–77, Arthur Burns Papers (hereafter: ABP), Box B9, GFL.

22 Talking Point: Conversation with Callaghan, attached to F. Widman to Chairman Burns, 25 June 1976, File: International Economic Summit Puerto Rico June 1976: Treasury Briefing Papers, ABP, Box B62, GFL.

23 Notes from Scott Pardee on the cable from Bank of England, 6 June 1976, File: United Kingdom: Loan from Group of Ten 1976, ABP, Box B113, GFL.

24 TNA: CAB 134/4025 EY(76) 5th Meeting, Ministerial Committee on Economic Strategy, Minutes of a Meeting held at 10 Downing Street, 7 June 1976.

25 Memorandum for the President from Edwin Yeo III, 24 June 1976, File: International Economic Summit Puerto Rico June 1976: Treasury Briefing Papers, ABP, Box B62, GFL.

26 Summary of Discussion by William Simon, 15 September 1976, File: Treasury Department 5/24/76–10/27/76, Henry Kissinger and Brent Scowcroft Files Temporary Parallel File, Box A1, GFL.

27 TNA: T 381/16 Nick [Jordan-Moss] to W. S. Ryrie, 20 September 1976.

28 Chris Rogers, 'Economic Policy and the Problem of Sterling under Harold Wilson and James Callaghan', *Contemporary British History*, 25:3 (2011), 353–4.

29 'Blackpool Follies', *Daily Express*, 27 September 1976.

30 Healey, *My Life*, p. 427.

31 Burk, *Old World*, p. 628.

32 Healey, *My Life*, pp. 428–9.

33 Callaghan, *Time*, pp. 427–8.

34 'Save our Sterling', *The Sun*, 29 September 1976.

35 Edmund Dell, *Hard Pounding* (Oxford: Oxford University Press, 1991), p. 236; TNA: T 381/16 Note of a Meeting held in the Chancellor of the Exchequer's Room, 28 September 1976.

36 Burk and Cairncross, *Goodbye*, pp. 8–9.

37 *Ibid.*, pp. 1–9.

38 Callaghan, *Time*, p. 428.

39 On Crosland, see: Kevin Jeffreys, *Anthony Crosland* (London: Pimlico, 2008).

40 Hennessy, *The Prime Minister*, pp. 384–9.

41 Mark Harmon, *The British Labour Government and the 1976 IMF Crisis* (London: Macmillan, 1997), pp. 55–8.

42 Speech given by Michael Foot at the Barrow in Furness CLP Annual Dinner, 25 September 1976, File: MP7/3, Michael Foot Papers, Labour Party Archive, Manchester, UK.

43 On the Crosland–Healey rivalry during the IMF Crisis, see: Giles Radice, *Friends & Rivals: Crosland, Jenkins and Healey* (London: Abacus, 2003), pp. 243–69.

44 TNA: T 381/16 Nick [Jordan-Moss] to W. S. Ryrie, 20 September 1976.

45 TNA: DEFE 25/99, Note from MOD: NATO Special Committee of Defence Ministers, Nuclear Planning Working Group, Brief for Defence Secretary, 15 September 1966; Francis M. Bator to President Johnson, 30 September 1966, Head of State Correspondence File, Box 10, LBJ Library; Message from Prime Minister to President, 7 October 1966, *ibid.*; Text of Message from the President to the Prime Minister, *ibid.*

46 TNA: T 381/16 Nigel Wicks to N. J. Monck, 30 September 1976; TNA: T 381/16 F. R. Barratt to Principal Private Secretary [Wicks], 30 September 1976.
47 TNA: T 381/16 F. R. Barratt to Principal Private Secretary [Wicks], 30 September 1976.
48 Jim Callaghan to the President of the United States, 30 September 1976, File: United Kingdom–Prime Minister James Callaghan, National Security Adviser Presidential Correspondence with Foreign Leaders, Box 4, GFL.
49 From Ambassador in London (Annenberg) to Department of State, Ref: State 8317, 11 February 1971, RG 59 General Records of the Department of State, Subject Numeric Files, 1970–73, Political and Defense, Box 2658, NAII, From Ambassador in London (Annenberg) to Department of State: Annual Assessment for the United Kingdom, 14 February 1972, *ibid.*; Intelligence Note, by Bureau of Intelligence and Research, 30 June 1972, RG 59 General Records of the Department of State, Box 962, NAII.
50 Burk and Cairncross, *Goodbye*, p. 64.
51 Underlined in the original. See: Memorandum for the President from Brent Scowcroft, undated (circa 1 October 1976), File: United Kingdom-Prime Minister James Callaghan, National Security Adviser Presidential Correspondence with Foreign Leaders, Box 4, GFL.
52 Memorandum for the President from Brent Scowcroft, undated (circa 28–29 September 1976), File: Country File-United Kingdom (1), National Security Adviser International Economic Affairs Staff Files, Box 3, GFL.
53 Memorandum for the President from Brent Scowcroft, undated (circa 30 September 1976), *ibid.*
54 TNA: PREM 16/798 Transcript of a Telephone Conversation between the Prime Minister and President Ford, 29 September 1976.
55 TNA: T 381/16 N. Jordan-Moss to Principal Private Secretary [Wicks], 1 October 1976.
56 Schenk, *The Decline*, pp. 372–4. Sterling balances were large amounts of sterling held in London by foreign countries which would use these as a currency for international trade transactions. By 1979 Callaghan had got his wish as sterling balances had disappeared.
57 Quote in TNA: PREM 16/800 Note for the Record: The IMF Loan and Safety Net for Sterling Balances, 5 November 1976. Also TNA: CAB 134/4025 EY(76) 19th Meeting, Ministerial Committee on Economic Strategy, 17 November 1976.
58 Meeting on the UK Economic Situation from Brent Scowcroft, 19 November 1976, File: United Kingdom (10), National Security Adviser Presidential Country Files for Europe and Canada, Box 15, GFL.
59 Underlined in the original. *Ibid.*
60 Memorandum of Conversation, November or December 1976, File: November 18 (?), 1976 Ford, Kissinger, NSAMC, Box 21, GFL.
61 TNA: T 381/17 Ken Stowe to N. J. Monck, 3 November 1976; TNA: PREM 16/799 Note of a Telephone Conversation between the Prime Minister and the Federal German Chancellor, 2 November 1976; TNA: PREM 16/800 Prime Minister's Conversation with Chancellor Schmidt, 5 November 1976.
62 Callaghan had all of the handwritten papers from the Cabinet sessions discussing the IMF loan placed into a brown envelope marked with: 'Not to be Destroyed.' See: TNA:

PREM 16/808 This Envelope contains notes made by the Prime Minister and Private Secretaries during the Cabinet Meetings discussing the IMF Negotiations: Not to Be Destroyed, undated (circa September–December 1976); TNA: PREM 16/799 Michael Palliser to K. R. Stowe, 4 November 1976.

63 TNA: PREM 16/800 Ramsbotham to FCO, Tel. 3794, 11 November 1976.

64 TNA: PREM 16/798 KRS [Kenneth Stowe] to the Prime Minister, undated (circa 5 November 1976); TNA: PREM 16/798 Note of a Meeting held in 10 Downing Street, 6 October 1976.

65 President: IMF loan to Great Britain, 12 November 1976, Box President Handwriting File, File: Countries-United Kingdom, GFL. Special thanks to the archival staff at the Gerald R. Ford Library for locating and providing me with a copy of this document.

66 TNA: T 381/17 Note of a Meeting held in the Chancellor's Room, 9 November 1976.

67 Hennessy, *The Prime Minister*, pp. 361–2.

68 TNA: PREM 16/800 JC [James Callaghan] to the President of the United States, 12 November 1976; TNA: PREM 16/801 Ramsbotham to FCO, Tel. 3828, 14 November 1976.

69 TNA: PREM 16/801 Telephone Conversation between President Ford and the Prime Minister, 16 November 1976.

70 Douglas Wass, *Decline to Fall: The Making of British Macro-economic Policy and the 1976 IMF Crisis* (Oxford: Oxford University Press, 2008), pp. 251–2.

71 Memorandum of Conversation, 16 November 1976, File: November 16, 1976 Ford, Kissinger, NSAMC, Box 21, GFL; Telcon: Secretary Kissinger-Secretary Simon, 17 November 1976, HAKTELCONS.

72 *Ibid*. Kissinger would make similar remarks later in the year. Memorandum of Conversation, 13 December 1976, File: December 13, 1976, Ford, Kissinger, NSAMC, Box 21, GFL.

73 TNA: PREM 16/801 Ramsbotham to FCO, Tel. 3845, 16 November 1976.

74 TNA: T 381/17 Ramsbotham to John Hunt, Tel. 3874, 17 November 1976.

75 Telcon: Mr William Rogers–Secretary Kissinger, 31 July 1976, HAKTELCONS.

76 Burk and Cairncross, *Goodbye*, p. 82.

77 TNA: PREM 16/801 Ramsbotham to FCO, Tel. 3845, 16 November 1976; Memorandum for Brent Scowcroft from Robert Hormats, 2 November 1976, File: Country File-United Kingdom (3), National Security Adviser International Economic Affairs Staff Files, Box 3, GFL.

78 TNA: PREM 16/800 JC [James Callaghan] to the President of the United States, 12 November 1976.

79 TNA: PREM 16/802 Ramsbotham to FCO, Tel. 3969, 24 November 1976.

80 TNA: PREM 16/801 Ramsbotham to FCO, Tel. 3874, 17 November 1976; TNA: PREM 16/801 Transcript of a Telephone Conversation between the Prime Minister in his room at the House of Commons and the Chancellor of the Duchy of Lancaster at the British Embassy in Washington, 17 November 1976; TNA: PREM 16/801 Crosland to FCO, Tel. 2507, 18 November 1976; TNA: PREM 16/801 Ramsbotham to FCO, Tel. 3907, 18 November 1976.

81 Kissinger, *YOR*, pp. 1059–64.

82 TNA: CAB 128/60 CM(76) 32nd Conclusion, Minute 3, 18 November 1976.

83 TNA: CAB 128/60 CM(76) 33rd Conclusion, Minute 2, 23 November 1976.

84 As reported in: 'Welcome to the Club, Denis', *The Sun*, 6 December 1976.
85 Memorandum for the President from Brent Scowcroft and Alan Greenspan, 1 December 1976, Box Presidential Handwriting File, File: Countries-United Kingdom, GFL.
86 Bernard Donoughue, *Downing Street Diary: With James Callaghan in No. 10* (London: Jonathan Cape, 2008), p. 110.
87 Memorandum of Conversation, 23 November 1976, File: November 23 (?), 1976, Ford, FRG Chancellor Helmut Schmidt (phone call), NSAMC, Box 21, GFL.
88 TNA: PREM 16/802 Ramsbotham to FCO, Tel. 3969, 24 November 1976; TNA: PREM 16/803 Ramsbotham to FCO, Tel. 3986, 25 November 1976.
89 TNA: PREM 16/804 Note for the Record: IMF Negotiations, 1 December 1976.
90 TNA: CAB 128/60 CM(76) 34th Conclusions, Minute 4, 2 December 1976. Crosland was supported by Harold Lever, Roy Hattersley, Secretary of State for Prices and Consumer Protection, and Shirley Williams, the Paymaster General. See: Dumbrell, *Anglo–American Relations From the Cold War to Iraq*, p. 84.
91 TNA: CAB 128/60 CM(76) 34th Conclusions, Minute 4, 2 December 1976. For other accounts from those present, see: Donoughue, *With James Callaghan*, pp. 90–126; Tony Benn, *Against the Tide: Diaries 1973–76* (London: Arrow, 1990), pp. 610–94.
92 David Harris, 'Healey at Bay over Package', *Daily Telegraph*, 2 December 1976.
93 Pearce, *Healey*, pp. 480–2.
94 Burk and Cairncross, *Goodbye*, pp. 111–12.
95 TNA: PREM 16/804 Note for the Record: IMF Negotiations, 1 December 1976; TNA: CAB 128/60 CM(76) 34th Conclusions, Minute 4, 2 December 1976; Hennessy, *The Prime Minister*, pp. 386–7.
96 Ian Ball, 'Callaghan Agrees to £3,494m Cut', *Daily Telegraph*, 6 December 1976, p. 1.
97 TNA: PREM 16/802 Ramsbotham to FCO, Tel. 3969, 24 November 1976; TNA: PREM 16/803 Ramsbotham to FCO, Tel. 3986, 25 November 1976; TNA: T 381/18 Note of a Meeting held at 11 Downing Street, 28 November 1976.
98 For a similar thesis, see: Hennessy, *The Prime Minister*, pp. 386–8.
99 'The Purse Busters', *Daily Express*, 9 October 1976.
100 Edmund Dell, *The Chancellors: A History of the Chancellors of the Exchequer, 1945–90* (London: HarperCollins, 1997), pp. 435–7.
101 TNA: PREM 16/808 This Envelope contains notes made by the Prime Minister and Private Secretaries during the Cabinet Meetings discussing the IMF negotiations: Not to Be Destroyed, undated (circa September–December 1976).
102 Pearce, *Healey*, pp. 500–1.
103 Burk and Cairncross, *Goodbye*, pp. 118–20.
104 TNA: PREM 16/802 President Ford to Prime Minister Callaghan, 20 November 1976.
105 Memorandum of Conversation, 3 December 1976, File: December 23, 1976, Ford, Kissinger NSAMC, Box 21, GFL.
106 TNA: PREM 16/805 Ramsbotham to FCO, Tel. 4120, 3 December 1976.
107 *Ibid.*; TNA: PREM 16/807 DHW [Douglas Wass] to the Prime Minister, 10 December 1976.
108 TNA: PREM 16/808 This Envelope contains notes made by the Prime Minister and Private Secretaries during the Cabinet Meetings discussing the IMF Negotiations: Not to Be Destroyed, undated (circa September–December 1976).

109 From AmEmbassy Bonn to the Secretary of State, 15 November 1976, Tel. 6311, File: Germany-State Department Telegrams to SecState NODIS (1), National Security Adviser, Presidential Country Files for Europe and Canada, Box 7, GFL.
110 'Chevaline' was the code name given to the project for updating Polaris.
111 TNA: T 364/51 Annex B, attached to John Hunt to the Prime Minister, 4 December 1976.
112 See Chapter 4.
113 TNA: PREM 16/805 John Hunt to Mr Stowe, 3 December 1976.
114 For Ford's offer to be 'sympathetic' see TNA: PREM 16/802 President Ford to Prime Minister Callaghan, 20 November 1976. On Healey's complaints, see: Wass, *Decline to Fall*, p. 255.
115 Harmon, *The British Labour Government*, p. 222. This position was consistent with internal thinking within the US Federal Reserve. See: Sterling Balances, David Howard to Mr Reynolds, 23 November 1976, File: United Kingdom General November 1976–1977, ABP, Box B113, GFL.
116 TNA: PREM 16/805 John Hunt to Mr Stowe, 3 December 1976.
117 TNA: PREM 16/807 Prime Minister to the President, 10 December 1976.
118 TNA: PREM 16/807 Telephone Conversation between the Prime Minister and Chancellor Schmidt, 11 December 1976; Memorandum for the President from Brent Scowcroft, 12 December 1976, File: Germany (FRG)-Chancellor Schmidt (3), National Security Adviser Presidential Correspondence with Foreign Leaders, Box 2, GFL.
119 TNA: PREM 16/807 Ramsbotham to FCO, Tel. 4284, 12 December 1976.
120 TNA: PREM 16/807 Ramsbotham to FCO, Tel. 4285, 12 December 1976; TNA: T 381/19 Front End Loading and Safety Net: Points for Telephone Conversation, Mrs Hedley-Miller, Mr Ryrie, 13 December 1976.
121 TNA: PREM 16/807 Ramsbotham to FCO, Tel. 4285, 12 December 1976.
122 For the advice being sent to the US delegation at the conference see: To Governor Wallich from Paul A. Volker, 9 December 1976, File: United Kingdom Sterling Balance Problem (1), ABP, Box B113, GFL.
123 TNA: PREM 16/808 Ramsbotham to FCO, Tel. 4189, 13 December 1976.
124 Simon, *Reflection*, p. 153; Raj Roy, 'Peter Ramsbotham, 1974–77', in Hopkins et al., *Washington Embassy*, p. 223.
125 Wass, *Decline to Fall*, pp. 256–7.
126 Memorandum of Conversation, 13 December 1976, File: December 13, 1976, Ford, Kissinger, NSAMC, Box 21, GFL.
127 TNA: PREM 16/808 Ramsbotham to FCO, Tel. 4213, 13 December 1976; TNA: PREM 16/808 Draft Message to President Ford, attached to K. R. Stowe to N. J. Monck, 14 December 1976.
128 Wass, *Decline to Fall*, p. 256. For the letter sent to Callaghan, see: TNA: PREM 16/808 N. Monck to Ken Stowe, 15 December 1976.
129 Prime Minister Callaghan to President Ford, December 1976, File: Backchannel-Hotline Cabinet Office London Incoming, 12/76, Henry Kissinger and Brent Scowcroft Files Temporary Parallel File, Box A1, GFL.
130 Wass, *Decline to Fall*, p. 256.
131 Arthur Burns to Gordon Richardson, 7 January 1977, File: United Kingdom Sterling Balance Problem (2), ABP, Box B113, GFL.

132 Callaghan, *Time*, p. 430; Kissinger, *YOR*, pp. 608–10; Simon, *Reflection*, p. 154.
133 Memorandum of Conversation, 23 November 1976, File: November 23, 1976, Ford, Kissinger, Scowcroft, National Security Adviser Memoranda of Conversations, Box 21, GFL.
134 Henry A. *Kissinger, 'Reflections on a Partnership:* British and American Attitudes to Post-war Foreign Policy', *International Affairs*, 58:4 (1982), 577.
135 Morgan, *Callaghan*, pp. 538–42; Renwick, *Fighting With Allies*, p. 216.
136 Callaghan, *Time*, p. 430.
137 Telcon: Kissinger–Scotty Retson, 28 October 1976, HAKTELCONS; TNA: PREM 16/799 Ramsbotham to FCO, Tel. 3594, 27 October 1976.
138 Burk and Cairncross, *Goodbye*, pp. 63–4.
139 Telcon: Kissinger-Scotty Retson, 28 October 1976, HAKTELCONS.
140 On Mexico, see: Memorandum for Brent Scowcroft from Robert Hormats, 20 August 1976, File: 8/3/76–8/23/76, National Security Adviser Outside the System Chronological File 1974–1977, Box 5, GFL. On Italy see: From AmEmbassy Rome to the Secretary of State, September 1976, Tel. 2110, File: Italy-State Department Telegrams To SecState-NODIS (5), National Security Adviser, Presidential Country Files for Europe and Canada, Box 9, GFL; From AmEmbassy Rome to the Secretary of State, September 1976, Tel. 685, *ibid.*
141 On Italy follow the material in: Talking Point: Conversation with Moro, undated, File: Country File-Italy, National Security Adviser, International Economic Affairs Staff Files, Box 2, GFL; Memorandum for the President from William Simon, undated, *ibid.*; Memorandum for the President from Edwin Yeo, 24 June 1976, *ibid.*; Stabilization Program for Italy, undated, *ibid.*; Memorandum for General Scowcroft from Edwin Yeo, 9 September 1976, *ibid.*
142 Memorandum for the President from Brent Scowcroft, 21 July 1976, File: United Kingdom-Prime Minister James Callaghan, National Security Adviser Presidential Correspondence with Foreign Leaders, Box 4, GFL.
143 TNA: FCO 46/1374 Note of a Bilateral Discussion between the Defence Secretary and the Hon. Donald Rumsfeld, the US Secretary of Defence, 15 June 1976.
144 Dumbrell, 'The Johnson Administration, and the British Labour Government', 211–31.
145 Rumsfeld, *Known and Unknown*, p. 236.
146 Memorandum for the President from Brent Scowcroft, 21 July 1976, File: United Kingdom-Prime Minister James Callaghan, National Security Adviser Presidential Correspondence with Foreign Leaders, Box 4, GFL; Reynolds, *Britannia Overruled*, pp. 249–52.
147 Robert Boyce, 'In Search of the Anglo-American Special Relationship in the Economic and Financial Spheres' in A. Capet and A. Sy-Wonyu (eds.), *The 'Special Relationship': La 'Relation Speciale'* (Rouen: University of Rouen, 2003) pp. 84–5; Dobson, *Anglo-American Relations*, pp. 143–5.
148 TNA: PREM 16/805 John Hunt to Mr Stowe, 3 December 1976.
149 Dimbleby and Reynolds, *An Ocean Apart*, p. 319.
150 W. C. Wells, *Economist in an Uncertain World: Arthur F. Burns and the Federal Reserve, 1970–1978* (New York: Columbia University Press, 1994); William Simon, *A Time for Truth* (New York: Readers Digest Association, 1978); William Simon, *A Time for*

Action (New York: Readers Digest Association, 1980); Simon, *Reflection*, pp. 152–5; Alan Greenspan, *The Age of Turbulence: Adventures in a New World* (London: Penguin, 2008).

151 Healey, *My Life*, pp. 419–20.

152 TNA: PREM 16/798 Note of a Meeting held in 10 Downing Street, 6 October 1976.

153 William Simon to William Peterson, 1 December 1976, William Simon Papers, Box 8 Series 1, Drawer 8, Folder 8, GFL.

154 For the points made in the text see: Memorandum for the President from Alan Greenspan, 23 April 1975, File: CO160-2/1/75–4/30/75, White House Central Files. Box 56, GFL; For the Desk of Alan Greenspan, 15 May 1975, File: CO 160-5/1/75–6/3/75, *ibid.*, GFL; Memorandum for Brent Scowcroft from Robert Hormats, 12 November 1976, File: Country File-United Kingdom (3), National Security Adviser International Economic Affairs Staff Files, Box 3, GFL; John E. Reynolds to Chairman Burns, 5 May 1976, File: International Finance May 1976, ABP, B63, GFL; Reynolds, *Britannia Overruled*, p. 253.

155 Memorandum of Conversation, 16 November 1976, File: November 16, 1976 Ford, Kissinger, NSAMC, Box 21, GFL; Memorandum of Conversation, November or December 1976, File: November 18 (?), 1976 Ford, Kissinger, NSAMC, Box 21, GFL; Memorandum of Conversation, 23 November 1976, File: November 23, 1976, Ford, Kissinger, Scowcroft, NSAMC, Box 21, GFL.

156 Telcon: Secretary Kissinger-Secretary Simon, 17 November 1976, HAKTELCONS.

157 Callaghan, *Time*, pp. 430–40; Healey, *My Life*, pp. 419–20; Dell, *A Hard Pounding*; Burk and Cairncross, *Goodbye*; Harmon, *The British Labour Government*; Kevin Hickson, *The IMF Crisis of 1976 and British Politics* (London: I.B. Tauris, 2005).

158 Ford, *A Time to Heal*, pp. 313–14.

159 Brinkley, *Ford*, pp. 123–5.

160 Denis Healey, 'Foundation for Growth', *Financial Times*, 31 December 1976.

161 Donoughue, *The Conduct of Policy*, pp. 79–85.

162 International Labour Comparisons, 22 November 1976, File: International Economic Reports 1, L. William Seidman Files, Box 137, GFL; Memorandum for Brent Scowcroft from Robert Hormats, 8 July 1976, File: Country File-United Kingdom (2), National Security Adviser International Economic Affairs Staff Files, Box 3, GFL; United Kingdom Economic Situation and Policy Problems, undated (circa June 1976), File: International Economic Summit Puerto Rico June 1976: Treasury Briefing Papers, ABP, Box B62, GFL.

163 William Simon to Lord Hartwell, 12 September 1976, William Simon Papers, Box 6, Series I, Drawer 6, Folder 2, GFL.

164 Memorandum for the President from Edwin Yeo III, 24 June 1976, File: International Economic Summit Puerto Rico June 1976: Treasury Briefing Papers, ABP, Box B62, GFL.

165 Peter Riddell, 'IMF Plans Close Watch on U.K.', *Financial Times*, 30 November 1976.

166 Memorandum of Conversation, 12 November 1974, File: November 12, 1974 Ford-Ambassador David Bruce, NSAMC, Box 7, GFL. Bruce was serving as the US ambassador to NATO at the time.

167 Meeting with Anne L. Armstrong from Brent Scowcroft, 14 January 1976, File: FO2/CO151–164A, White House Central Files Subject File, Box 8, GFL; Memorandum

for the President from Brent Scowcroft, undated (circa 1 October 1976), File: United Kingdom-Prime Minister James Callaghan, National Security Adviser Presidential Correspondence with Foreign Leaders, Box 4, GFL; Memorandum for the President from Brent Scowcroft, undated, File: Europe-General (2), National Security Adviser Presidential Country Files for Europe and Canada, Box 1, GFL; Memorandum of Conversation, 18 October 1974, File: October 18, 1974-Ford–Kissinger, NSAMEMCON, Box 6, GFL; Memorandum of Conversation, 8 January 1975, File: January 8, 1975 Ford–Kissinger, NSAMEMCON, Box 8, GFL; United Kingdom, undated, File: Economic Summits-Rambouillet (1), National Security Adviser International Economic Affairs Staff Files, Box 4, GFL; Memorandum of Conversation, 24 February 1976, File: European Community, National Security Adviser International Economic Affairs Staff Files, Box 5, GFL.

168 Memorandum for Brent Scowcroft from Robert Hormats, 12 November 1976, File: Country File-United Kingdom (3), National Security Adviser International Economic Affairs Staff Files, Box 3, GFL; Memorandum for the President from Edwin Yeo III, 24 June 1976, File: International Economic Summit Puerto Rico June 1976: Treasury Briefing Papers, ABP, Box B62, GFL.

169 Hattersley, *Fifty Years On*, p. 252.

170 ‘Dance of the Puppets’, *Daily Express*, 1 October 1976.

171 Burk, *Old World*, p. 629.

172 Kissinger, *YOR*, pp. 1006–10.

173 Telcon: Ambassador Armstrong–Secretary Kissinger, 13 October 1976, HAKTELCONS.

174 The Gerald R. Ford presidential library maintains a detailed exhibit of Queen Elizabeth II’s visit. See: www.fordlibrarymuseum.gov/library/exhibits/queen/queen.asp (Accessed 22 February 2013).