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THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

July 29, 1965

MEMORANDUM FOR THE PRESIDENT

Subject: Advice to the U.K.

1. I understand that there was a meeting yesterday of Fowler, Ball, Martin, and Bundy on what advice to give the U.K. I have not been able to reach Fowler to confirm it, but I understand they reached this conclusion:

that the U.K. should be told that under any and all circumstances devaluation of the pound is unthinkable and cannot be permitted.

2. I am no advocate of devaluation. I hope and think it can be avoided. But I see serious danger in telling them that it cannot under any circumstances be permitted.

- Such a position in effect commits us to indefinite and unlimited rescue operations -- whatever they do, and whatever the Continentals refuse to do.
- Such a position carries the danger that -- if they are unwilling to take the necessary measures themselves and our rescue fails -- they will devalue without consultation, and in a manner and to an extent that could bring down the whole house of cards.

3. A U.K. devaluation at best would be painful and risky. But there are worse things. One of those would be indefinite support of the pound by the U.S. when

- the U.K. was failing to take the necessary measures to put its house in order, and
- as a result, the Continentals lost confidence both in the pound and the dollar.

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4. If, despite all our efforts to persuade,
 - the British decide the measures they would have to take aren't worth it -- economically or politically;
 - if the Continentals won't participate in a multilateral rescue operation;

then we should be prepared to help negotiate an orderly devaluation.
5. We don't have to tell them that now. We should tell them that
 - (a) If confidence falters, they should take dramatic further moves;
 - (b) In that event, and if they request it, we will endeavor to help line up a multilateral rescue;
 - (c) We are not prepared for a unilateral support of the pound.

Gardner Ackley

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