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TEL NO 2125 OF 13 JULY 1981

U S VIEWS ON THE BRITISH ECONOMY.

1. BEFORE THE OTTAWA SUMMIT YOU MAY LIKE A BRIEF SUMMARY OF U S VIEWS ON BRITISH ECONOMIC DEVELOPMENTS AND POLICIES.

2. THERE IS A GROWING AMOUNT OF GLOOM HERE ABOUT THE STATE OF THE UK ECONOMY AND ABOUT THE PROSPECTS FOR ANY EARLY RECOVERY. THE ADMINISTRATION REMAINS BASICALLY SYMPATHETIC TO THE GENERAL OBJECTIVES OF OUR DOMESTIC ECONOMIC POLICY. ESPECIALLY OUR DETERMINATION TO GET OUR RATE OF INFLATION DOWN, TO REDUCE THE DISINCENTIVE EFFECTS OF HIGH TAXATION, AND TO REDUCE THE ROLE OF GOVERNMENT AND THE PUBLIC SECTOR. WHERE SOME OF THEM (SUCH AS SPRINKEL AND ROBERTS AT THE TREASURY) HAVE DOUBTS IS MORE ABOUT PERFORMANCE, PARTICULARLY WHETHER ENOUGH HAS BEEN DONE TO CUT SPENDING AND TAXES, AND TO KEEP THE MONEY SUPPLY UNDER CONTROL.

3. PRESIDENT REAGAN HIMSELF IS LIKELY TO TAKE THE VIEW THAT IT IS UP TO EACH INDUSTRIALISED COUNTRY TO GET ITS OWN ECONOMY RIGHT, FIRST AND FOREMOST BY REDUCING INFLATION.

4. GIVEN THE BASIC SIMILARITIES BETWEEN U S AND UK ECONOMIC OBJECTIVES, COMMENTATORS HERE FREQUENTLY SEEK TO READ ACROSS FROM UK EXPERIENCE TO THE PROSPECTS FOR SUCCESS OF REAGAN'S PROGRAMME (DESPITE THE STRUCTURAL DIFFERENCES BETWEEN THE TWO COUNTRIES). FOR THIS REASON, THE UK ECONOMY CONTINUES TO GET A GOOD DEAL OF PRESS COVERAGE. SOME, SUCH AS LEONARD SILK OF THE NEW YORK TIMES, REGARD THE QUOTE BRITISH EXPERIMENT UNQUOTE AS HAVING FAILED THROUGH DEFICIENCIES OF IMPLEMENTATION, AND POINT TO THE ADVERSE EFFECT ON OUTPUT AND EMPLOYMENT. OTHERS, PROBABLY THE MAJORITY, ARE WILLING TO GIVE US CREDIT FOR REDUCING INFLATION AND WAGE SETTLEMENTS FROM THEIR PEAK LEVEL, FOR SEEKING TO GET BETTER CONTROL OVER THE MONEY SUPPLY, AND FOR IMPROVEMENTS IN PRODUCTIVITY. EVEN THIS GROUP, HOWEVER, POINT TO THE COST OF WHAT HAS BEEN ACHIEVED. HOBART ROWEN OF THE WASHINGTON POST HAS DRAWN ATTENTION TO A RECENT STAFF STUDY FOR THE JOINT ECONOMIC COMMITTEE OF CONGRESS, WHICH RAISES THE QUESTION WHETHER THE BENEFITS OF REDUCED INFLATION AND WAGE SETTLEMENT OUTWEIGH THE COST IN TERMS OF LOST OUTPUT AND UNEMPLOYMENT. BUT OVERALL THE RECENT U S PRESS TREATMENT OF THE UK ECONOMY APPEARS NO MORE CRITICAL THAN THE UK PRESS, WHERE MUCH OF THE MATERIAL PUBLISHED HERE ORIGINATES.

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5. THE AMERICAN VIEW OF THE UK ECONOMY HAS RECENTLY BEEN  
OVERSHADOWED BY FULL MEDIA COVERAGE (REPORTED IN TELEGRAM  
NO 2071 OF 9 JULY) OF THE DISTURBANCES IN MAJOR CITIES AROUND  
THE UK. THESE DEVELOPMENTS HAVE BEEN LINKED WITH THE HIGH LEVEL OF  
UNEMPLOYMENT IN THE UK AND THE GOVERNMENT'S ECONOMIC POLICIES,  
ALTHOUGH OTHER FACTORS SUCH AS RACIAL TENSION AND INNER CITY DECAY  
HAVE ALSO BEEN CITED. WHILE PRESIDENT REAGAN IS UNLIKELY TO REGARD  
THIS AS A REASON FOR QUESTIONING OUR BASIC ECONOMIC POLICIES,  
HE MAY ENQUIRE HOW THEY MIGHT BE AFFECTED BY THESE DEVELOPMENTS.

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