

USA

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CONFIDENTIAL

FM WASHINGTON 142320Z JAN 80

TO PRIORITY FCO

TELNO 223 OF 14 JAN 80

US ECONOMY

1. WHEN ECONOMIC MINISTER PAID A COURTESY CALL ON SECRETARY MILLER AT THE US TREASURY TODAY, MILLER MADE A NUMBER OF COMMENTS ON THE ECONOMIC PROSPECTS.
2. MILLER THOUGHT RECESSION HAD IN FACT BEGUN, ALTHOUGH NOT YET REFLECTED IN UNEMPLOYMENT FIGURES. THE SIGNS WERE THERE IN EG. THE AUTOMOBILE INDUSTRY AND HOUSING. BUT HE EXPECTED THE RECESSION TO BE MODERATE, POSSIBLY LASTING FOR THE FIRST TWO OR THREE QUARTERS OF 1980: IT WOULD NOT BE ON THE SCALE OF THE 1974 RECESSION.
3. HE DID NOT THINK IT WOULD PROVOKE CONGRESSIONAL PRESSURE FOR REFLATIONARY ACTION ON THE BUDGET THIS YEAR. HE THOUGHT THE TIMETABLE ON THESE MATTERS WAS OFTEN MISUNDERSTOOD. IF THE PRESIDENT HAD WANTED TO FOLLOW THAT COURSE, HE WOULD HAVE NEEDED TO START LAST SUMMER. BUT HE HAD GIVEN PRIORITY TO THE FIGHT AGAINST INFLATION, AND HAD NOT EVEN ALLOWED A TAX CUT TO BE EXAMINED WITHIN THE ADMINISTRATION. REPUBLICAN PRESIDENTIAL CANDIDATES WOULD OBVIOUSLY NOT WANT TO BE MORE EXPANSIONARY THAN THE PRESIDENT. THE CONGRESS WAS MORE QUOTE SKITTERISH UNQUOTE. BUT THE PRESENT DEMOCRATIC LEADERSHIP IN CONGRESS HAD SUPPORTED THE PRESIDENT'S APPROACH. UNLESS THE RECESSION WAS MUCH MORE MARKED THAN HE ENVISAGED, MILLER DID NOT THEREFORE SEE MUCH LIKELIHOOD OF CONCERTED CONGRESSIONAL PRESSURE FOR FISCAL RELAXATION.
4. ON EARNINGS, HE CONFIRMED THE PAY BOARD WERE LIKELY TO RECOMMEND A RANGE OF 7 1/2 - 9 1/2 PER CENT FOR SETTLEMENTS, ON THE BASIS THAT SETTLEMENTS SHOULD ONLY BE ABOVE THE MID-POINT OF THE RANGE IF THEY HAD BEEN BELOW THE NATIONAL AVERAGE IN THE PAST (AND VICE VERSA). HE THOUGHT THIS WAS A REASONABLE APPROACH, BUT HE WAS CAUTIOUS ABOUT HOW FAR IT WOULD BE COMPLIED WITH.

5. ON THE PROSPECTS FOR SAVINGS, HE SAID THAT AS THE US HAD NO RECENT EXPERIENCE OF SUSTAINED INFLATION AT PRESENT LEVELS, ANY ANALYSIS WAS LIABLE TO BE BASED MAINLY ON GUESSWORK. THE REASON FOR THE PRESENT LOW SAVINGS RATE WAS PARTLY DEMOGRAPHIC, REFLECTING THE LARGE NUMBERS IN THE YOUNG MARRIED AGE GROUP WHICH HAD LARGE DEBT COMMITMENTS. ALSO THE PUBLISHED FIGURE FOR THE SAVINGS RATIO DID NOT INCLUDE EQUITY INVESTMENT IN HOUSING, WHICH WAS INCREASINGLY BEING SEEN AS THE BEST INFLATION HEDGE. FUNDS FOR NEW HOUSING WHICH HAD PREVIOUSLY ALMOST DRIED UP WERE NOW PLENTIFUL FOLLOWING THE MEASURES TAKEN IN THE LAST TWO YEARS. WHILE HE EXPECTED SOME INCREASE IN THE SAVINGS RATIO FROM THE PRESENT LOW LEVEL, HE DID NOT THEREFORE EXPECT ANY SHARP SHIFT.
6. FCO PLEASE PASS ADVANCE COPY TO A. TURNBULL (HMT).

HENDERSON

FCO/WHITEHALL DISTN.

[ADVANCED AS REQUESTED]

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