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TO IMMEDIATE WASHINGTON

TELEGRAM NUMBER 360 OF 27 FEBRUARY

NO DISTRIBUTION

FOR WHITMORE, PRIME MINISTER'S PARTY, FROM LANKESTER, 10 DOWNING STREET

1. THE FT FRONT PAGE STORY ABOUT REGAN CRITICISM IS BRIEFLY REFERRED TO IN THE COI SUMMARY. THE FULL STORY ON THIS IS AS FOLLOWS (THOUGH I AM NOT SENDING THE FINAL PART OF IT WHICH REFERS EXCLUSIVELY TO EL SALVADOR AND EAST WEST MATTERS):

THE PREDICTABLE HARMONY OF MRS THATCHER'S OFFICIAL VISIT TO THE U.S. WAS RUDELY INTERRUPTED YESTERDAY WHEN MR. DONALD REGAN THE U.S. SECRETARY OF THE TREASURY, TOLD CONGRESS IN BLUNT TERMS THAT HER ECONOMIC POLICIES HAD BEEN FAR FROM SUCCESSFUL. BEFORE EXCUSING HIMSELF TO GO AND HAVE LUNCH WITH THE BRITISH PRIME MINISTER, HE TOLD A CONGRESSIONAL COMMITTEE THAT MRS. THATCHER HAD FAILED TO GET THE MONEY SUPPLY UNDER CONTROL, HAD NOT CUT TAXES AS PROMISED AND WAS STILL POURING OUT TOO MUCH GOVERNMENT MONEY TO INDUSTRY.

MR. REGAN'S RESERVATIONS ABOUT MRS THATCHER'S POLICIES ARE SHARED BY MANY AMERICAN CONSERVATIVES WHO ARGUE THAT PRESIDENT REAGAN IS NOT ABOUT TO COMMIT THE SAME MISTAKES.

BUT THE TIMING OF HIS REMARKS AND THE FACT THAT HE MINCED FEW WORDS SEEM LIKELY TO OFFEND AGAINST THE DIPLOMATIC NICETIES WHICH NORMALLY PREVAIL DURING AN OFFICIAL VISIT.

"HER TAX CUTS WERE NOT AS GREAT AS THEY SHOULD HAVE BEEN AND THEY RAISED THE VALUE-ADDED TAX SO THAT THE GOVERNMENT IS STILL TAKING 70 PER CENT OF THE INCOME OF THOSE IN HIGHER TAX BRACKETS. THAT PROVIDES LITTLE INCENTIVE TO GET THE ECONOMY STARTED AGAIN".

"SHE FAILED IN THE EFFORT TO CONTROL THE FOREIGN EXCHANGE MARKET AND THE POUND IS SO HIGH IN VALUE THAT IT RUINED THEIR EXPORT TRADE".

HE ADDED THAT MRS. THATCHER HAD, EVEN IF INADVERTENTLY, INDUCED AN "EXPLOSIVE INFLATIONARY SURGE" BY ALLOWING EXCESSIVE PAY INCREASES TO GOVERNMENT EMPLOYEES.

FAILURE TO CONTROL THE MONEY SUPPLY, HE ARGUED, HAD NEGATED SUCH EXPENDITURE CUTS AS HAD BEEN MADE.

"ON THE ONE HAND THEY'VE DONE ONE THING, BUT ON THE OTHER HAND THEY'RE COUNTERVAILING IT".

LATER, SEVERAL U.S. OFFICIALS TRIED TO TAKE THE STING OUT OF MR. REGAN'S REMARKS. THE THRUST OF THEIR MESSAGE WAS THAT MRS. THATCHER HAD NOT FAILED IN HER POLICIES - ONE OFFICIAL SAID SHE HAD BEEN ENGAGED IN "A HEROIC AND TRULY NECESSARY EFFORT" - BUT THAT THE ECONOMIC AND POLITICAL DIFFERENCES BETWEEN THE TWO COUNTRIES MADE COMPARISONS ILL ADVISED.

THE OFFICIALS LISTED THE LARGE BRITISH PUBLIC SECTOR, THE INEFFICIENCY OF STATE INDUSTRIES, THE SUSCEPTIBILITY OF THE UK ECONOMY TO FOREIGN INFLUENCES AND ITS ENTRENCHED WELFARE STATE AS EXAMPLES OF THIS.

NO IMMEDIATE REACTION WAS AVAILABLE FROM THE BRITISH PARTY, WHICH OTHERWISE WAS BASKING IN THE WARMTH OF THE WELCOME PROVIDED BY PRESIDENT REAGAN YESTERDAY MORNING.

AT AN EVENING PRESS CONFERENCE, MRS. THATCHER MADE NO DIRECT REFERENCE TO MR. REGAN'S REMARKS, BUT SAID SHE THOUGHT THE U.S. ECONOMIC PROGRAMME WAS FORTUNATE IN BEING LAUNCHED AS THE WORLD WAS COMING OUT OF RECESSION, WHICH WAS NOT THE CASE FOR THE UK IN 1979/80. SHE SAID THAT THE ECONOMIC FACTS OF LIFE HAD PREVENTED HER CUTTING SPENDING AND TAXES AS MUCH AS SHE WOULD HAVE LIKED.

CARRINGTON