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US ECONOMY: HIGHER GROWTH FORECASTS

1. FOLLOWING PRESIDENT REAGAN'S APPEARANCE ON TELEVISION LAST NIGHT (OUR TELNO 1805), THE ADMINISTRATION HAVE NOW RELEASED THE MAIN DETAILS OF THEIR MID-YEAR FORECASTS, REVISING UPWARDS THE LAST OFFICIAL GROWTH FORECASTS MADE IN APRIL. GROWTH IN 1983 (4TH QUARTER TO 4TH QUARTER) IS NOW FORECAST AT 5.5% (4.7% IN APRIL) AND GROWTH IN 1984 AT 4.5% (4% IN APRIL.). (THEIR FORECASTS OF INFLATION REMAIN THE SAME AS IN APRIL.)

2. THE MAIN FIGURES ARE AS FOLLOWS:

CALENDAR YEAR	GROWTH IN GNP IN 1972 DOLLARS		UNEMPLOYMENT RATE (4TH QUARTER)
	YEAR	4TH QUARTER ON ON	
1982	-1.7	-0.9	10.5
1983	3.1	5.5	9.6
1984	5.2	4.5	8.6
1985	4.2	4.0	8.0
1986	4.0	4.0	7.3

3. ACCORDING TO FELDSTEIN, CHAIRMAN OF THE COUNCIL OF ECONOMIC ADVISERS, THE INCREASE IN THE GROWTH RATE WOULD REDUCE THE PROJECTED DOLLARS 190 BILLION FEDERAL BUDGET DEFICIT FOR FY84 BY DOLLARS 10-15 BILLION AND WOULD REDUCE THE FY85 DEFICIT BY THE SAME AMOUNT.

4. IN A SPEECH TO THE NATIONAL PRESS CLUB TODAY (COPIES BY BAG), SECRETARY REGAN REHEARSED THE MAIN RECENT FAVOURABLE ECONOMIC DEVELOPMENTS LEADING TO THE REVISED FORECAST. ON THE BUDGET, HE SAID THAT FOR THE TIME BEING THE ADMINISTRATION EXPECTED TO BE ABLE TO FINANCE THE DEFICIT WITHOUT CROWDING OUT PRIVATE INVESTMENT, AND THAT THE PSYCHOLOGICAL IMPACT OF DEFICITS HAD LARGELY BEEN DISCOUNTED BY THE MARKET. THE SOLUTION TO THE BUDGET PROBLEM IN THE LONGER TERM WOULD BE SHIFTING RESOURCES BACK INTO THE PRIVATE SECTOR. HE WAS STRONGLY AGAINST EVEN A SMALL INCREASE IN TAXES NOW, WHICH WOULD ENDANGER THE RECOVERY.

5. THE SENATE THIS MORNING REJECTED BY A VOTE OF 45-55 THE DEMOCRATIC PROPOSAL TO PUT A LIMIT ON THE BENEFIT INDIVIDUALS COULD DERIVE FROM THE 10% CUT IN INCOME TAX RATES DUE ON 1 JULY. THIS MEANS THAT THE LEGISLATION TO DO THIS, ALREADY PASSED IN THE HOUSE, WILL NOT PROCEED. ALTERNATIVE MEANS WILL HAVE TO BE FOUND IF THE DOLLARS 12 BILLION INCREASE IN TAX REVENUES IN FY84 PROVIDED FOR IN THE BUDGET RESOLUTION IS TO BE FOUND. BUT THERE IS WIDESPREAD DOUBT, GIVEN THE THREAT OF A PRESIDENTIAL VETO, THAT ANY BILL TO INCREASE TAXES WILL BE PASSED THIS YEAR.

6. FCO PLEASE PASS TO BOTTRILL (TREASURY) AND WATSON (BANK).

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