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**VENICE ECONOMIC SUMMIT: US REACTIONS****SUMMARY**

1. GENERALLY NEGATIVE PRESS REACTIONS, BOTH ON SUBSTANCE AND ON PRESIDENT'S PERSONAL PERFORMANCE. POLITICAL DECLARATIONS ATTRACT LITTLE ATTENTION. PRESIDENT ATTEMPTS TO REGAIN INITIATIVE IN NATIONALLY TELEVISED ADDRESS: HIGHLIGHTS G7 PARTNERS CONCERN ABOUT US DEFICITS, AND PROPOSES REFORM OF US BUDGET PROCESS AND ECONOMIC BILL OF RIGHTS.

**DETAIL**

2. WITH A FEW EXCEPTIONS US MEDIA REACTIONS TO THE VENICE SUMMIT HAVE BEEN NEGATIVE, AND IN SOME CASES OPENLY HOSTILE. A NEW YORK TIMES EDITORIAL SAID THAT THE G7 LEADERS HAD AVOIDED TOUGH DECISIONS AND THAT, AS A RESULT, THE MEETING WAS QUOTE AN EMBARRASSMENT ... PRESIDENT REAGAN WENT EMPTY HANDED AND LEFT THE SAME WAY UNQUOTE. THE PAPER ADDED THAT THE PRESIDENT'S PERSONAL AUTHORITY HAD BEEN QUOTE CRIPPLED BY THE DEMOCRATS' CONTROL OF CONGRESS UNQUOTE AND THAT QUOTE WORSE, AMERICA'S ECONOMIC CLOUT HAS BEEN DEFLATED BY YEARS OF INATTENTION TO THE BUDGET DEFICIT AND THE TRADE DEFICIT UNQUOTE. THE WALL STREET JOURNAL CASTIGATED THE PRESIDENT FOR TALKING DOWN THE DOLLAR AT HIS POST SUMMIT NEWS CONFERENCE. INFLUENTIAL WASHINGTON POST COLUMNISTS DESCRIBED THE SUMMIT VARIOUSLY AS QUOTE IRRELEVANT UNQUOTE (EVANS AND NOVAK), QUOTE TWILIGHT UNQUOTE (CANNON) AND QUOTE A DIALOGUE OF DEATH UNQUOTE (ROWEN). FEW LEADER WRITERS OR COLUMNISTS CHOSE TO DISCUSS ITS MORE POSITIVE FEATURES: PROGRESS ON MULTILATERAL SURVEILLANCE OR LDC DEBT, FOR EXAMPLE. (SENIOR IMF OFFICIALS HAVE ATTEMPTED, NOT VERY SUCCESSFULLY, TO PUT A MORE POSITIVE GLOSS ON THESE ASPECTS OF THE SUMMIT AGREEMENT).

3. A NUMBER OF PRESS STORIES, STARTING WITH HOFFMAN IN THE WASHINGTON POST, HAVE REPORTED OTHER PARTICIPANTS' IMPRESSIONS OF THE PRESIDENT AS BEING BUMBLING AND UNIMPRESSIVE, AND HAVING TO RESORT CONSTANTLY TO HIS BRIEFING CARDS IN DISCUSSION. SEVERAL COMMENTATORS DREW A CONTRAST WITH EARLIER SUMMITS WHICH REAGAN HAD APPROACHED WITH QUOTE ENERGY AND WIT UNQUOTE (CANNON).

4. THE POLITICAL DECLARATIONS FROM THE SUMMIT HAVE ATTRACTED LITTLE ATTENTION IN THE MEDIA (THAT ON EAST/WEST HAS BEEN OVERSHADOWED BY SUBSEQUENT EVENTS AT REYKJAVIK). BUT OUR STATE CONTACTS CONFIRM THAT THE ADMINISTRATION WERE WELL PLEASED WITH THE TEXTS ON EAST/WEST AND TERRORISM, AND CONSIDERED THAT THE GULF TEXT WAS THE BEST THAT COULD HAVE BEEN OBTAINED IN THE CIRCUMSTANCES.

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5. WALL STREET REACTIONS TO THE SUMMIT WERE MUTED. THE VIEW OF MOST ANALYSTS WAS THAT LITTLE OF SUBSTANCE HAD BEEN ACHIEVED (THOUGH LITTLE WAS EXPECTED) AND DOLLAR AND BOND PRICES INITIALLY WEAKENED SLIGHTLY. MARKET PERCEPTIONS FIRMED, HOWEVER, WITH THE PUBLICATION OF THE APRIL TRADE DEFICIT OF DOLLARS 13.3 BN, VIRTUALLY UNCHANGED FROM THE MARCH FIGURE, AND THE LOWER THAN EXPECTED RISE IN PRODUCER PRICES FOR MAY. FOREIGN EXCHANGE AND BOND MARKETS HAVE ALSO BEEN BOOSTED BY THE SIGNIFICANTLY BETTER THAN EXPECTED FIGURES FOR THIS YEAR'S BUDGET DEFICIT (ALBEIT LARGELY THE CONSEQUENCE OF SURGING TAX REVENUES FOLLOWING LAST YEAR'S TAX REFORM ACT) AND A VIEW, GAINING GROUND, THAT FURTHER TIGHTENING IN MONETARY POLICY IS UNLIKELY, AT LEAST OVER THE NEXT FEW MONTHS. BUT WHILE A PAUSE IN THE DOLLAR'S DECLINE MAY THEREFORE HAVE BEEN REACHED, MOST ANALYSTS BELIEVE THAT, IN THE LONGER TERM, THE DOWNWARD TREND WILL CONTINUE.

6. IN A NATIONALLY TELEVISED SPEECH ON 15 JUNE, THE PRESIDENT SOUGHT TO PUT THE VENICE SUMMIT IN A BETTER LIGHT. HE DENIED THAT THE US HAD RETURNED EMPTY HANDED AND DESCRIBED THE SPIRIT OF CONSENSUS SHOWN BY WORLD LEADERS IN VENICE AS QUOTE PARTICULARLY STRONG UNQUOTE, A STARK CONTRAST WITH 1981 WHEN, FACED WITH HIGH INFLATION, HIGH INTEREST RATES, EXCESSIVE TAX BURDENS AND TOO MUCH GOVERNMENT REGULATION, THERE HAD BEEN QUOTE VIRTUALLY NO AGREEMENT AMONG WORLD LEADERS ON HOW TO DEAL WITH THE LOOMING CRISIS UNQUOTE.

7. ON THE SPECIFICS OF VENICE, THE PRESIDENT MENTIONED THREE AREAS WHERE PROGRESS HAD BEEN MADE - REMOVING TRADE BARRIERS AND FARM SUBSIDIES, PERSIAN GULF POLICY AND ARMS NEGOTIATIONS. EXTRACTS ON THE LAST TWO HAVE BEEN TELEGRAPHED SEPARATELY. ON AGRICULTURE, THE PRESIDENT SAID HE WOULD QUOTE CONTINUE TO PRESS FOR A COMMITMENT UNQUOTE TO ELIMINATE FARM SUBSIDIES BY THE YEAR 2000 AND CLAIMED THAT IT WAS QUOTE A REAL STEP FORWARD TO GET THIS ISSUE ON THE SUMMIT AGENDA UNQUOTE. OTHER MEMBERS OF THE ADMINISTRATION HAVE ECHOED THIS LINE. AT A BRIEFING MEETING IN STATE DEPARTMENT ON 16 JUNE FOR REPRESENTATIVES OF OECD AND OTHER FRIENDLY COUNTRIES, RIDGWAY (STATE) MULFORD (TREASURY) AND DANZANSKY (NSC) WENT OUT OF THEIR WAY, AGAINST THE BACKGROUND OF HOSTILE MEDIA COMMENTS, TO GIVE A HIGHLY UP-BEAT VIEW OF THE SUMMIT, EMPHASISING THE PRESIDENT'S SATISFACTION WITH BOTH THE POLITICAL AND ECONOMIC ASPECTS.

8. HOWEVER, A LARGE PART OF THE PRESIDENT'S TELEVISED SPEECH WAS ADDRESSED TO QUOTE ONE DISTURBING TOPIC UNQUOTE IN THE VENICE DISCUSSIONS, NAMELY THE QUOTE SENSE OF UNEASE ABOUT AMERICA'S COMMITMENT TO A CONSISTENT, ENFORCEABLE PLAN TO REDUCE OUR DEFICITS UNQUOTE. WHILE REPEATING EARLIER ADMINISTRATION CLAIMS THAT THE BUDGET DEFICIT HAD DECLINED FROM 6.3 PER CENT OF GNP IN FY83 (THE PEAK OF THE RECESSION) TO A PROJECTED 3.9 PERCENT FOR FY87, THE PRESIDENT CASTIGATED CONGRESS FOR IGNORING THE BUDGET PROPOSALS (FOR FY88) WHICH HE HAD SENT TO CONGRESS EARLIER IN THE YEAR. INSTEAD, THE /PRESIDENT

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PRESIDENT CLAIMED, CONGRESS WAS QUOTE CONSIDERING A PLAN THAT ... SHARPLY REDUCED DEFENCE SPENDING ... BACK TO THE DANGEROUS LEVELS OF THE LATE 1970S UNQUOTE AND THAT IGNORED QUOTE RESTRAINT ON WASTEFUL DOMESTIC SPENDING SOLEMNLY PROMISED UNDER GRAMM-RUDMAN-HOLLINGS UNQUOTE. IN THE PRESIDENT'S VIEW, THIS POINTED TO FAILURE OF THE BUDGET PROCESS AND HE ARGUED STRONGLY THAT ACTION WAS NEEDED IN THREE AREAS: A BALANCED BUDGET CONSTITUTIONAL AMENDMENT, SUPPORT FROM THE PUBLIC IN PRESSING CONGRESS TO AGREE TO A RESPONSIBLE DEFICIT REDUCTION PACKAGE, AND A LINE-ITEM VETO. THE PRESIDENT SAID HE WOULD BE QUOTE STEPPING UP MY OWN PUBLIC COMMITMENT TO THIS CAUSE UNQUOTE AND THAT IF QUOTE CONGRESS WON'T SEE THE LIGHT, I KNOW YOU CAN MAKE THEM FEEL THE HEAT UNQUOTE. FINALLY, THE PRESIDENT SAID HE WOULD BE OUTLINING THE SPECIFICS IN THE NEXT FEW WEEKS OF AN QUOTE ECONOMIC BILL OF RIGHTS UNQUOTE, WHICH WOULD PARALLEL THE POLITICAL FREEDOMS GUARANTEED IN THE CONSTITUTION.

9. IT SEEMS UNLIKELY THAT THE PRESIDENT'S ADDRESS, OR ANY OTHER ATTEMPTS BY THE ADMINISTRATION TO PUT A POSITIVE GLOSS ON THE OUTCOME, WILL REVERSE THE WIDESPREAD IMPRESSION HERE THAT THE VENICE SUMMIT LACKED SUBSTANCE. THE ADMINISTRATION MUST BEAR PART OF THE BLAME FOR THIS. THEY CREATED THE IMPRESSION IN THE MONTH BEFORE THE SUMMIT THAT THEY WOULD BE TAKING A VERY HARD LINE WITH ONE OR MORE OF THEIR PARTNERS ON ISSUES SUCH AS MACRO-ECONOMIC POLICY, BURDEN SHARING IN THE GULF AND AGRICULTURAL SUBSIDIES, BUT THEN APPEARED TO DUCK THE IMPLIED CONFRONTATIONS IN VENICE.

10. AT A POLITICAL LEVEL, THE SUMMIT IS SEEN HERE AS HAVING FAILED TO ADVANCE THE CAUSE OF WIDER WESTERN PARTICIPATION IN THE GULF (ALTHOUGH THE BRITISH ROLE HAS NOW BEEN FULLY RECOGNISED). ON ECONOMIC ISSUES, ONE COMMENTATOR CONTRASTED THE MORE IMAGINATIVE APPROACH OF EUROPEAN LEADERS TO SUPPLY-SIDE ECONOMIC POLICIES WITH THE QUOTE CRYPTO-KEYNESIAN UNQUOTE POLICIES OF AMERICAN LEADERS, WHO STRESSED SHORT-RUN FISCAL STIMULUS AS A CORRECTIVE BOTH FOR HIGH UNEMPLOYMENT AND FOR THE HUGE TRADE SURPLUSES IN GERMANY AND JAPAN. ON THE US BUDGET, COMMENTATORS HAVE NOT BEEN SLOW TO DESCRIBE THE PRESIDENT'S IDEAS AS A NEW APPEAL FOR AN OLD SET OF PROPOSALS TO CHANGE THE SYSTEM. MOST ANALYSTS BELIEVE THAT THE DEFICIT PROBLEM IS ONE OF POLITICAL CHOICES AND TRADE-OFFS, NOT A BREAKDOWN IN THE PROCESS OR SYSTEM. THE PRESIDENT'S FRUSTRATION AT CONGRESS'S INACTION OVER THE FY88 BUDGET (AN AGREED BUDGET RESOLUTION IS NOW TWO MONTHS OVERDUE) IS UNDERSTANDABLE. NEVERTHELESS, MANY COMMENTATORS VIEW THE PRESIDENT'S COMMENTS ABOUT CONSULTING CONGRESS: (QUOTE WE ARE READY TO TALK ... AT ANY TIME, BUT NOT IF THE OBJECTIVE IS ADDITIONAL SPENDING, MORE TAXES AND LESS DEFENCE ... WHAT WE WANT IS LESS SPENDING, PERIOD UNQUOTE). AS BEING DELIBERATELY CONFRONTATIONAL, AND UNLIKELY TO HASTEN AGREEMENT. PROPOSALS FOR /A

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A LINE-ITEM VETO AND A CONSTITUTIONAL BALANCED BUDGET AMENDMENT  
HAVE BEEN PUT TO CONGRESS MANY TIMES BEFORE, WITHOUT SUCCESS.  
11. FCO PLEASE ADVANCE TO LITTLER (TREASURY) AND LOEHNIS (BANK).

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