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INFO UKREP BRUSSELS, PARIS, BONN, ROME, TOKYO, OTTAWA,
UKMIS GENEVA, UKMIS NEW YORK.

THE U S ECONOMY AND THE PRESIDENTIAL ELECTION.

1. PRESIDENT CARTER FACES A DIFFICULT DILEMMA IN HANDLING ECONOMIC POLICY DURING THE FINAL RUN-UP TO THE ELECTION. THE MARCH ANTI-INFLATION PACKAGE, WITH ITS TIGHT CREDIT CONTROLS AND ITS OBJECTIVE OF A BALANCED BUDGET, CONTRIBUTED TO THE STEEPNESS OF THE RECESSION. THE INFLATION RATE HAS COME DOWN SOMEWHAT, BUT HOW LONG IT WILL STAY DOWN REMAINS TO BE SEEN. IN THE MEANTIME UNEMPLOYMENT IS CONTINUING TO RISE AND IS LIKELY TO BE RUNNING AT 8 AND ONE HALF PERCENT BY THE END OF THE YEAR. THE STEEL INDUSTRY IS WORKING AT BARELY 50 PERCENT CAPACITY. THE CAR INDUSTRY IS IN AN UNPRECEDENTED MESS, WITH IMPORT PENETRATION AT OVER 25 PERCENT THE DOLLAR IS WEAK. AND TO CAP IT ALL, THE MUCH FLAUNTED BALANCED BUDGET FOR 1981 PROMISES TO TURN INTO A HEFTY DEFICIT. THIS IS ANYTHING BUT AN IDEAL SCENARIO FOR THE PRESIDENT'S ELECTION PROSPECTS AND IT IS UNLIKELY TO ALTER SUBSTANTIALLY BETWEEN NOW AND NOVEMBER.

2. IN THIS SITUATION, IT HAS BEEN RELATIVELY EASY FOR HIS OPPONENTS TO PRE-EMPT THE TACTICAL GROUND. KENNEDY, STILL FIGHTING (WHO HAS STILL NOT RENOUNCED HIS CANDIDACY) FOR THE DEMOCRATIC NOMINATION, OFFERS THE ALTERNATIVE OF SOMETHING APPROACHING A MANAGED ECONOMY. HE CALLS FOR A SIX MONTH FREEZE ON PRICES, WAGES, INTEREST RATES, DIVIDENDS AND RENTS, FOLLOWED BY A PERIOD OF CONTROLS AND A 12 BILLION DOLLAR JOB CREATION PROGRAMME. HE TALKS OF THE NEED TO QUOTE RE-INDUSTRIALISE UNQUOTE AMERICA. HE ARGUES AGAINST THE DE-CONTROL OF OIL PRICES, IN FAVOUR OF PETROL RATIONING AND OF PHASING OUT ALL NUCLEAR POWER STATIONS. HIS ECONOMIC PRESCRIPTIONS ARE DESIGNED TO APPEAL TO THE TRADITIONAL DEMOCRATIC CONSTITUENCY: BUT ALTHOUGH HE PRESENTS THEM AS THE ULTIMATE JUSTIFICATION OF HIS CHALLENGE TO CARTER, THEY SEEM TO ATTRACT LESS ATTENTION NOW THAN THEY DID DURING THE PRIMARIES.

3. A MORE SERIOUS CHALLENGE COMES FROM REAGAN, WHOSE ECONOMIC STRATEGY, UNDERNEATH ALL THE RHETORIC, IS CLOSER TO THE PRESIDENT'S IN THAT IT IS STRONGLY MARKET-ORIENTED. REAGAN IS IN FAVOUR OF REDUCING THE BURDEN OF TAXATION, CURBING GOVERNMENT REGULATION, ENCOURAGING INVESTMENT AND PRODUCTIVITY AND HENCE EMPLOYMENT. HIS EARLIER PANACEA OF A 30 PERCENT TAX CUT SPREAD OVER THREE YEARS CAME UNDER HEAVY CRITICISM AS BEING BASED

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ON DANGEROUSLY OVER-SIMPLIFIED ASSUMPTIONS. HE IS NOW PROPOSING A 10 PERCENT TAX CUT AND ACCELERATED DEPRECIATION ALLOWANCES TO TAKE EFFECT IN 1981, AS QUOTE DOWN PAYMENT UNQUOTE ON FURTHER UNSPECIFIED TAX CUTS TO TAKE EFFECT WHEN CONDITIONS ALLOW. WITH THIS PROPOSAL, HE HAS FOR THE MOMENT STOLEN A MARCH ON THE ADMINISTRATION AND NARROWED THEIR ROOM FOR MANOEUVRE: AND HIS PROMISES TO RESTORE FULL EMPLOYMENT HAVE PUT THE ADMINISTRATION ON THE DEFENSIVE OVER A TRADITIONALLY DEMOCRATIC ISSUE.

4. THE PRESIDENT'S TACTICAL PROBLEM IS TO PURSUE POLICIES THAT ARE SEEN TO BE RESPONSIBLE, WHILE OFFERING TANGIBLE HOPE OF IMPROVEMENT. HE MUST NOT LET UP ON INFLATION, BUT NEEDS TO SHOW THAT HE TOO HAS CLEAR PLANS FOR DEALING WITH UNEMPLOYMENT. HE NEEDS TO DIFFERENTIATE HIMSELF FROM REAGAN, WITHOUT MAKING IT IMPOSSIBLE, WHEN HE JUDGES IT RIGHT, TO ADOPT MEASURES THAT MAY NOT LOOK UNLIKE THOSE THAT REAGAN HAS ALREADY PROPOSED.

5. THE PRESIDENT HAS THEREFORE DECIDED AGAINST TABLING A TAX CUT AT THIS STAGE, WHILE MAKING IT CLEAR THAT ONE MAY WELL BE DESIRABLE IN 1981. HE HAS SAID THAT HE WILL BE WORKING WITH CONGRESS TO DEVELOP A PROGRAMME THAT WILL ASSIST ECONOMIC RECOVERY WHILE HELPING TO ACHIEVE LONG TERM ECONOMIC OBJECTIVES. THIS WAY HE CAN HOPE TO FEND OFF CRITICISM FOR NOT STIMULATING THE ECONOMY NOW, WHILE WAITING FOR THE EXPECTED TECHNICAL IMPROVEMENT IN THE MONTHLY PRICE INDEX. THIS MAY ENABLE HIM TO CLAIM, IN DUE COURSE, WITH SOME HOPE OF CREDIBILITY THAT INFLATION IS ON THE WAY TO BEING LICKED AND THAT IT IS NOW SAFE TO THINK OF GIVING A TOUCH TO THE ACCELERATOR. IT WILL LEAVE HIM FREE TO FORMULATE A PROPOSAL AT A TIME AND IN TERMS THAT HE JUDGES TO BE ELECTORALLY MOST PROFITABLE - FOR EXAMPLE, AID TO CAR WORKERS, TO THE STEEL INDUSTRY, OR TO THE FARMERS: OR MEASURES AIMED MORE GENERALLY AT REVITALISING THE ECONOMY. TO THAT EXTENT HE RETAINS THE TACTICAL ADVANTAGE OF THE INCUMBENT. BUT WITH ALL HIS OTHER PROBLEMS, AND WITH THE RANGE OF CHOICES SO NARROW, IT IS BY NO MEANS CLEAR THAT THE ADVANTAGE WILL PROVE DECISIVE: AND WHATEVER PALLIATIVES HE PROPOSES, CARTER WILL REMAIN HIGHLY VULNERABLE TO CRITICISM OF HIS ECONOMIC MANAGEMENT OVER THE PAST FOUR YEARS.

HENDERSON

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THIS TELEGRAM
WAS NOT
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