

UNCLASSIFIED
FM WASHINGTON
TO IMMEDIATE FCO
TELNO 668
OF 212245Z MARCH 90
AND TO IMMEDIATE PARIS, BONN, TOKYO, UKDEL OECD, ROME, OTTAWA

US REACTIONS TO THE UK BUDGET

SUMMARY

1. GENERALLY NEUTRAL REPORTING FOCUSED ON INFLATIONARY PROBLEMS AND CHANCELLOR'S PLEDGE TO MAINTAIN HIGH INTEREST RATES. LITTLE COVERAGE OF BUDGET DETAILS OTHER THAN MEASURES TO BOOST SAVINGS, A FAMILIAR US PREOCCUPATION. SOME COMMENTARY ON GOVERNMENT'S POLITICAL DIFFICULTIES THOUGH LESS EXTENSIVE THAN LAST YEAR. MIXED INTERPRETATION OF FINANCIAL MARKET RESPONSE.

DETAIL

2. BUDGET REPORTING IN THE QUALITY PRESS WAS LESS EXTENSIVE THAN LAST YEAR, WHEN THE BUDGET WAS AT TIMES USED AS A HOOK ON WHICH TO HANG STORIES ABOUT EMERGING ECONOMIC AND POLITICAL DIFFICULTIES. (THIS YEAR'S ARTICLES HAVE BEEN FAXED TO THE TREASURY PRESS OFFICE). THE GENERAL PERCEPTION WAS OF A CAUTIOUS BUDGET TAILORED TO MEET THE NATION'S ECONOMIC PROBLEMS. THE LATTER, PRIMARILY HIGH INFLATION AND INTEREST RATES AND A LARGE CURRENT ACCOUNT DEFICIT, WERE DESCRIBED IN FAIRLY NEUTRAL TERMS.

3. LITTLE DETAIL WAS PROVIDED ON INDIVIDUAL BUDGET MEASURES. HOWEVER, THE CHANCELLOR'S WARNING THAT INTEREST RATES WOULD REMAIN HIGH WAS WIDELY REPORTED, AS WAS THE PREDICTION THAT INFLATION WOULD RISE FURTHER BEFORE FALLING. OF THE SPECIFIC BUDGET MEASURES THOSE DESIGNED TO ENCOURAGE SAVINGS RECEIVED MOST COMMENT, IN PART BECAUSE LOW SAVING IS ALSO OF CONCERN IN THE US.

4. THE CHANCELLOR'S RESTATEMENT OF THE PRECONDITIONS FOR ENTRY INTO THE ERM WERE PICKED UP, AND THE WASHINGTON TIMES SUGGESTED THAT THE LACK OF A QUOTE CLEAR SIGNAL UNQUOTE FOR ENTRY INTO THE ERM DISAPPOINTED THE FINANCIAL MARKETS, DEPRESSING THE POUND. THE JOURNAL OF COMMERCE, BY CONTRAST, NOTED THAT BOTH SHARE PRICES AND THE POUND ENDED THE DAY HIGHER.

5. POLITICAL ASSESSMENT OF THE BUDGET SPEECH AND PACKAGE HAS

BEEN LIMITED. HOWEVER, THE JOURNAL OF CONGRESS QUOTED ONE IMMEDIATE VERDICT AS BEING QUOTE A GOOD BUDGET POLITICALLY UNQUOTE, AND THAT MR KINNOCK GAVE THE BUDGET A QUOTE GRUDGING WELCOME (AS) THE FIRST SIGNS OF A LISTENING GOVERNMENT UNQUOTE. THE WALL STREET JOURNAL JUDGED THAT THE SAVINGS AND THE DAY-CARE MEASURES SHOULD BOOST THE GOVERNMENT'S POPULARITY.
COMMENT

6. ON BALANCE, THE BUDGET RECEIVED LIMITED BUT GENERALLY FAVOURABLE COVERAGE. CERTAINLY GIVEN THE PERCEIVED ECONOMIC AND POLITICAL DIFFICULTIES IN THE UK (INCLUDING THE POLL TAX WHICH HAS BEEN WIDELY REPORTED OF RECENT) THE PRESS COMMENT WAS PERHAPS MORE HELPFUL THAN MIGHT HAVE BEEN FEARED.

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