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FM WASHINGTON 210435Z MAR 80
TO IMMEDIATE F C O
TELEGRAM NUMBER 1190 OF 21 MARCH

Read in full

OUR TELNO 1097: PRESIDENT CARTER'S ANTI-INFLATION PACKAGE:
INITIAL PRESS REACTION.

1. INITIAL PRESS REACTION TO PRESIDENT CARTER'S ANTI-INFLATION PACKAGE HAS BEEN MIXED, WITH MOST COMMENTATORS SAYING THAT IT WILL DO LITTLE TO REDUCE INFLATION IN THE SHORT TERM.

THE BUDGET

THE BUDGET

2. THE BUDGETARY PROPOSALS HAVE RECEIVED THE GREATEST ATTENTION. THE WALL STREET JOURNAL HAS BEEN PARTICULARLY CRITICAL CHARGING THAT THE CUTS ARE MISLEADING BECAUSE THEY HAVE BEEN SUPERIMPOSED ON REVISED ESTIMATES OF EXPENDITURE AND REVENUE. ON THE EXPENDITURE SIDE, NEW INFLATION ASSUMPTIONS HAVE RAISED THE FY81 TOTAL BY DOLLARS 9.5 BN SINCE THE PRESIDENT'S JANUARY PROPOSALS. THE PROPOSED CUTS OF DOLLARS 13.5 BN THEREFORE ONLY REDUCE NOMINAL EXPENDITURE BY DOLLARS 4 BN. ON THE REVENUE SIDE, REVISIONS SINCE JANUARY HAVE RAISED THE TOTAL BY DOLLARS 11.5 BN, WHILE THE NEW INTEREST WITHOLDING PROPOSAL AND OIL IMPORT FEE TOGETHER ARE EXPECTED TO RAISE A FURTHER DOLLARS 13 BN. THESE CALCULATIONS LEAD THE WALL STREET JOURNAL TO CONCLUDE THAT PRESIDENT CARTER'S BUDGET CUTS ARE IN FACT QUOTE A TAX INCREASE UNQUOTE.

3. THERE HAS ALSO BEEN SOME SPECULATION AS TO THE REASONS WHY PRESIDENT CARTER DECIDED AGAINST PROVIDING FULL DETAILS OF HIS BUDGET PROPOSALS BEFORE THE END OF MARCH. THE MOST FREQUENTLY MENTIONED ARE THAT IT WAS POLITICALLY ADVANTAGEOUS TO WAIT UNTIL AFTER THE IMPORTANT ILLINOIS AND NEW YORK PRIMARIES AND ALSO THAT THE DETAILS OF THE PROGRAMME HAD YET TO BE WORKED OUT.

MONETARY AND CREDIT MEASURES.

4. THE FEDERAL RESERVE MEASURES ARE INCREASINGLY SEEN BY THE PRESS AS HAVING THE GREATEST POTENTIAL IMPACT ON THE ECONOMY. THE CONSUMER CREDIT MEASURES HAVE RECEIVED THE GREATEST ATTENTION SO FAR, THOUGH THIS IS PROBABLY IN PART BECAUSE THEY ARE THE EASIEST TO REPORT.

VOLUNTARY WAGE AND PRICE GUIDELINES

5. THE NEW YORK TIMES HAS DESCRIBED THE PRESIDENT'S NEW PROPOSALS AS QUOTE TOOTHLESS JAWBONING UNQUOTE.

THE PAPER SAYS THAT PRESIDENT CARTER'S MOST IMPORTANT ERROR WAS IN FAILING TO ASK FOR DIRECT RESTRAINTS ON WAGES AND PRICES. IT FEELS WITHOUT CONTROLS OF SOME SORT, THE PROSPECTS FOR REPAIRING THE ECONOMY QUICKLY ARE VERY POOR. THE LIKELYHOOD OF FURTHER MANDATORY CONTROLS IS MENTIONED IN OTHER PAPERS.

OIL IMPORT FEE

6. THERE HAS BEEN REMARKABLY LITTLE COMMENT SO FAR ON THE PRESIDENT'S IMPOSITION OF AN OIL IMPORT FEE OR ON THE CONSEQUENT INCREASE IN GASOLINE PRICES.

GENERAL REACTIONS.

7. THE PRESS HAS GIVEN PROMINENCE TO THE REACTIONS OF THE FINANCIAL

MARKET. THE REACTION OF THE STOCK MARKET HAS BEEN GENERALLY

GENERAL REACTIONS.

THE PRESS HAS GIVEN PROMINENCE TO THE REACTIONS OF THE FINANCIAL MARKETS. THE DECLINE OF THE STOCK MARKET HAS BEEN GENERALLY REPRESENTED AS A QUOTE THUMBS DOWN UNQUOTE TO THE PRESIDENT'S PACKAGE (ALTHOUGH THE WASHINGTON POST REPORTED MORE POSITIVELY THAT THIS REFLECTED EXPECTATIONS OF LOWER CORPORATE PROFITS AND HIGHER INTEREST RATES).

IN MOST PAPERS THIS RESPONSE HAS BEEN CONTRASTED WITH THE QUOTE APPROVAL UNQUOTE SHOWN BY THE FOREIGN EXCHANGE AND GOLD MARKETS AS THE VALUE OF THE DOLLAR INCREASED AND THE PRICE OF GOLD DECLINED. THE SLIGHT INCREASE IN BOND PRICES HAS RECEIVED LITTLE ATTENTION.

8. THE OVERALL EDITORIAL REACTION TO THE PACKAGE SO FAR IS THAT IT DOES NOT CONTAIN ENOUGH STRONG MEASURES IMMEDIATELY TO REDUCE INFLATION OR TO DAMPEN INFLATIONARY EXPECTATIONS. THE MAIN EFFECT ON INFLATION IS INCREASINGLY RECOGNISED AS RESULTING FROM A SLOW DOWN IN THE ECONOMY LATER IN THE YEAR.

9. F C O PLEASE ADVANCE TO A TURNBULL (TREASURY) DESKBY 210902Z AND PASS TO P HAYWARD (BANK OF ENGLAND)

HENDERSON

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