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PRIME MINISTER

US ECONOMIC POLICY

President Reagan's success in gaining a large majority in the US Congress for his tax and budget measures, without major concessions on their scope or character, has launched his programme with as much political momentum as he could have wished. We all hope it will achieve its goals. But, as you yourself said recently to the Prime Minister of Singapore, there are some grounds for concern that US interest rates may remain at a high level, particularly if heavy public borrowing competes with a heavy demand for credit from the private sector when monetary growth is, very properly, being restrained. I share your concern that this could have a severe impact on our own prospects for economic recovery.

2. Exchanges at the Ottawa Summit and in other forums will have brought home to the US Administration at the highest levels the anxiety which we and others feel on this score. There is little to be gained by saying anything more at this stage. But September will bring the IMF/IBRD joint annual meeting, and I shall want to give careful thought to what I might then say in my bilateral meetings with Americans in its margins. I should like to discuss with you before leaving for Washington

/the line I might

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the line I might take with them. Meantime, I shall avoid being drawn - at any rate in private discussion with the Americans - into any explicit endorsement of this aspect of their programme.

(G.H.)

11 August 1981

CONQUEROR

THE U.S. ECONOMY

Reaganomics: so far, so good

By Reginald Dale, U.S. Editor in Washington

PRESIDENT REAGAN'S success in laying the foundations of his economic programme has left many Americans, including some of his most ardent supporters, gasping in astonishment. Against almost every expectation he has done precisely what he said he was going to do, and he has done it on time.

As he starts his four-week Californian holiday, he can look back on a series of smashing congressional victories in which he not only firmly laid the two main planks of his economic policy—a \$36bn (£20bn) spending cut next year and a \$750bn tax cut between this autumn and 1986—but consigned the Democratic opposition to demoralised disarray.

His programme can no longer be discussed only as a hypothesis, America, and the world, are about to find out if Reaganomics work in practice.

It is worth remembering what the pundits were saying in February, when he first unveiled the details of his plans. The conventional wisdom was that he might get some of his Budget cuts, but certainly not all. There would be a long drawn out fight on the tax cuts which might last until the end of the year and still not result in a Reagan victory.

Deregulation of industry, the third plank in the platform, would have to wait until well

he has a three-year commitment from Congress (the Democrats wanted the third cut to be conditional on the state of the economy at the time).

Moreover, the indexation of tax brackets to the cost of living index from 1985 means that Mr Reagan's tax cuts are now built into the structure of the tax system. That, taken together with his determination to balance the Budget by 1984, means he is well on the way to establishing a strict budgetary regime which will last him through the four years of his term of office.

Mr David Stockman, his energetic budget director, is already looking forward enthusiastically to the next round of spending cuts.

Deregulation of industry—"getting Government off its back"—has suffered some setbacks in the Supreme Court, which has ruled, for example, that workers are entitled to the maximum possible protection from health and safety hazards. The court has not bought the original Reagan line that the costs to industry must be taken into account alongside the benefits to the workers.

However, that will not fatally undermine Mr Reagan's deregulation drive, much of which can be accomplished by administrative fiat and a staff is already being made.

One area in which the Administration's plans are behind schedule is monetary policy. Interest rates have not come down as forecast—they are still at near record levels. The financial markets are still worried about the size of the likely Budget deficit.

And it is not only the European economies which are suffering, as President Reagan pointed out at last month's Ottawa summit, many American businesses are hurting, too—and the American thrift (mortgage and savings) institutions are screaming.

The Treasury is not too happy with the Federal Reserve's management of the money supply. But even here there is no wavering in the Administration's conviction that interest rates will come down as soon as the financial markets fully understand that it really is going to "stay the course."

How has Mr Reagan got this far, apparently against all the odds? In the first place, he has shown far greater political skill than most people gave him credit for. His handling of Congress is now being compared, respectfully, with that of the old master, Lyndon Johnson.

He has grabbed the initiative and left the Democrats struggling to catch up, and he has shrewdly identified individual Democratic congressmen who he needed to draw into his camp to overcome the Republicans' minority in the House of Representatives.

In enticing them on to the bandwagon he has had to make deals which may turn out to be hostages to fortune. He has made promises ranging from an undertaking to modify his plan to eliminate minimum social security payments to a commitment to help Georgia peanut farmers.

But above all he has won the



Explaining the theory: Mr Reagan appears to have struck a chord which echoes strongly and clearly around the country...

key congressional votes by convincing the majority that his economic plan is the one the American people want.

In this, at least for the time being, he is almost certainly right. Of course, he is not going to please everyone, and it is not hard to make out a case that cuts in spending on welfare, health and education may cause genuine hardship. But Mr Reagan appears to have struck a chord which echoes strongly

11 per cent a year in real terms at the same time that he is cutting everything else. Many Americans are startled and confused by the discovery that their country is in danger of slipping into the position of number two superpower, and they want something done about it. In many parts of the country, the two things ordinary people will agree on are the need to reduce inflation—and increase defence spend-

ADMINISTRATION PROJECTIONS OF ECONOMIC ACTIVITY

	1980	1981*	1982*
GNP	\$2,626bn	\$2,951bn	\$3,296bn
Real growth	-0.2%	+2.6%	+3.4%
Inflation (CPI)	+13.5%	+9.9%	+7.0%
Unemployment rate	7.2%	7.5%	7.3%
Interest rate, 91-day treasury bills	11.5%	13.6%	10.5%

* Estimate.

and clearly around the country when he argues that the old ways simply have not worked.

The poor are still poor, despite massive spending on welfare, and many blacks are still in desperate straits despite all the government programmes over the years. There is a widespread feeling that a new approach should at least be given a try.

The same goes for defence spending, which Mr Reagan wants to increase by a massive

ing. It is neither here nor there if this defies certain schools of economic thought.

Above all, Mr Reagan, like a successful Napoleonic marshal, has managed to enshroud himself with an aura of good luck, of being a natural winner. It may be physically painful, but it does no harm politically to survive a point blank assassination attempt. He is even lucky in the timing of the latest slowdown in the economy. It has taken the wind from the sails

of those who once argued that a major tax cut would be far too inflationary.

What then can go wrong? Two things, at least, say his opponents. First, the American people will wake up with a jolt when they realise the full practical consequences of the Budget cuts for their everyday lives. Second, the whole programme simply will not work.

The Reagan economic programme is meant to square the circle. Tax cuts provide the incentive for people to work harder and save more. The money saved goes into investment in modern equipment industries where the workers are working harder because of the tax cuts.

Productivity increases, the price of American-produced goods becomes more competitive and inflation comes down—helped on its way by the progressive reduction of the budget deficit, a crackdown on the growth of the money supply and a strong dollar. As business becomes more profitable, it makes more sense for people to invest their tax cut savings in it, and the cycle starts again.

Looked at like that, the programme is open to criticism from two opposite directions. A prime element in the equation is to ensure that the money people save in tax cuts is invested in the right way and not merely spent on increased consumption.

Some of the more purist supply-siders would argue that only the rich can be trusted to invest their money sensibly and that they should, therefore, get an even bigger tax break than that already contained in the President's across the board tax cut. Mr Reagan's Democratic opponents argue that the package already favours the rich and big business, far too much.

It is true that for many Americans the tax cuts will not mean very much more money in their pockets overnight. The main effect will be to stop them paying more than they would have otherwise. As venerable an authority as the International Monetary Fund's staff, while endorsing the overall direction of the Reagan plan, made it clear in a recent report that it believed the Administration had over-estimated the likely supply side effects of the tax cuts—or at least the speed with which they would come about. In its annual economic outlook, the Fund predicted a real growth rate of only 1.25 per cent in U.S. GNP next year, against the Administration's 3.4 per cent.

A key factor will be how far the Administration succeeds in reducing inflation. It is now confidently predicting that the year-on-year rate for 1981 will be in single figures and that the economy is on course for the target of around 5 per cent inflation by the end of 1984. If, however it has got its figures wrong, a key link in the chain will be broken. Interest rates will stay high, further endangering the thrift institutions which are meant to be encouraging savings, and any extra money stemming from the tax cuts will be more likely to go on consumption than investment.

Many of President Reagan's critics would argue that, what-

ever he may say, his programme is inflationary. Firstly, they would point to the Budget deficit, which, at a projected \$55bn this year and \$42bn next year, is far higher than Mr Reagan originally intended.

Secondly, they take issue with his view that a vast increase in defence spending can be achieved without inflationary spin-off. (Some of them also claim there will not be enough money in the budget to finance the defence build-up after the tax cuts.)

The Administration rejects comparisons, frequently made, with the Johnson Vietnam build-up, now generally admitted to have injected a massive dose of inflation into the system.

Mr Stockman likes to point out that at the time of Vietnam the U.S. domestic budget was expanding at an extremely rapid real rate, whereas today it is declining. The Vietnam build-up also pushed up defence spending from 7 per cent to 9 per cent of GNP, he says, whereas under the Reagan plan it will rise from its current level of 5 per cent to a maximum of 6.8 per cent—less than the Vietnam starting point.

The other answer to any doubts which may be expressed about inflation is the monetarist one. Dr Beryl Sprinkel, the administration's arch monetarist, insists that provided the



David Stockman: already looking forward to the next round of spending cuts.



Beryl Sprinkel: insists that inflation will be squeezed out of the economy

money supply is kept under control, and the Budget deficit is not financed irresponsibly, inflation will be squeezed out of the economy.

He, like everyone else in the Reagan team, is convinced that Reaganomics can be made to work. For Washington, there is a rare unanimity at all the highest levels of the Administration about where the economy should be heading, and confidence it will get there.

Outside the Administration, as Mr Reagan's triumphs in Congress have shown, there is a widespread feeling that the programme should be given the chance to prove itself one way or the other. Senator Howard Baker of Tennessee, the Republican leader in the Senate, openly admits it is a gigantic "riverboat gamble." But he is putting his money on it, together with a great deal of the Republican Party's political capital.

into 1982. Economists were seriously worried about what would happen if the spending cuts fell into place and the tax cuts did not.

As it has turned out, the conventional wisdom was badly mistaken. Mr Reagan has not got 100 per cent of what he asked for, but he has probably come as near as he could possibly have hoped. The \$5bn difference between the \$41bn he originally sought in spending cuts next year and the \$36bn he has actually got is not going to cause him to lose much sleep.

There is a greater difference with the tax cuts—instead of three annual 10 per cent cuts in income tax starting on July 1 this year, he has got a 5 per cent cut on October 1 and two 10 per cent cuts in July 1982 and July 1983.

This will obviously delay—and weaken—the initial impact. But the important point is that

THE ARTS

Lytelton

Translations by MICHAEL COVENEY

Any sceptic who feared that the absorption of Brian Friel's *Translations*, the best Irish play for years, by the National Theatre would soften it down or diminish its impact is in for a surprise. It was premiered last year by the Field Day Company in Derry and moved triumphantly on to the Dublin Festival, where I first saw it. Hampstead Theatre gave it a new production earlier this year and it is that version, directed by Donald McWhinnie and designed by Eileen Diss, with costumes by Lindy Hemming, that has now opened in the Lyttelton.

Although set in a Donegal hedge school of the 1830s, there is nothing remote about the dramatic investigation of Anglo-Irish relations. Indeed, for someone like myself, a London Irishman thanks to the potato famine, the play, even after three viewings, sets off strange and complicated feelings of dislocated patriotism, a sharp sense of loss for a world and a way of life to which I can really lay no claim.

This is not maudlin speculation. Nor are these feelings prompted by the exact and highly detailed observation of a vanished rural community. It is with real wonder that this higgledy-piggledy world of casual erudition and fierce communal loyalties is realised by the author, conveyed in a beautifully structured text.

Even in Ireland, it was resonantly ironical that a play about the obliteration of the Irish language was delivered in English. The scene where a young English lieutenant makes love to a bright and romantically ambitious colleen in his language while she responds in hers is struck through with the stuff of real dramatic poetry.

That scene is played unforgettably by Shaun Scott and Bernadette Shortt. His infatuation with the mythology of place names develops in the call of duty, which is the drawing up of a new map. To this end, the Army has hired the services as go-between and interpreter of Owen, elder son of the hedge school master.

Owen has been in Dublin for six years and is moving with the tide of progress. Only when the lieutenant goes missing and the area is threatened with retaliatory eviction and clearance does he realise the folly of



Ron Flanagan, Anna Keaveney, Ian Bannen and Maire ni Ghrainne

his ways. The younger brother, Manus (Gabriel Byrne, an excellent newcomer to the cast), loses his girl to the lieutenant and sets off, a smouldering, lame reject, to trudge along the coast.

The show has transferred very well to the large stage, with one remarkable elaboration among the cast. This is the performance of Ian Bannen as Hugh, the bibulous master whose glorious speech, a tapestry of Latin tags, remembered heroism, savage percep-

tion and lip-smacking phraseology is now incorporated in a characterisation on the grand scale. Whether offering hospitality as he struggles helplessly around the book-cluttered desk, or bullying reflex responses out of his eager class, this kindly Squeers of Ballybeg is both a celebration of a trust in language and a warning about ignoring its application.

In no way, however, does the performance overshadow the top class work of either Tony Doyle as Owen or Ron Flanagan and Anna Keaveney as tremulous pupils with the countryside on their boots and faces.

Cinema

Hey ho Silver... the

by NIGEL ANDREW

The Legend of the Lone Ranger (U) Odeon Marble Arch
John M Stahl and Shohei Imamura National Film Theatre
In For Treatment ICA

Hurling across the Western landscape its masked white man and Red Indian constant-companion—plus horses—*The Lone Ranger* was one of the staple series of 1950s television. It had a surreal dash and a beguilingly dotty dynamism as it subjected the *William Tell* overture to *prestissimo* extremes and sent its two wrong-righters scampering fearlessly and anonymously across America seeking injustice wherever it might lurk.

Exhumation being the keynote of modern popular cinema, it was never likely that, come the 1980s, these two would rest long in their graves. But *The Legend of the Lone Ranger*, co-presented and co-financed by our very own Lord Grade, turfs them out even more unceremoniously than it might. Accompanied by voiced-off doggerel verses of a rare and ruthless awfulness, it follows our quaintly-matched duo through banally-scripted boyhood years as 'blood-brothers' in and around an Indian tribe up to and beyond the moment when the Lone Ranger—hitherto known plainly as John Reid—first dons his black mask and buckskin and hoists his horse up on two legs.

At the point of mask-donning and horse-hoisting, alas, the film advances from the merely asinine to the terminally grotty: with the appearance of the villain, one 'Butch' Cavendish (Christopher Lloyd), the kidnapping by Mr Cavendish of President Ulysses S. Grant (Jason Robards) and the shoot-'em-out rescue of this dignitary by you-know-whom. William Fraker, promoted from photographing that high-carat shambles 1941, directs. But he has brought with him his stock-in-trade diffusion effects, here so exaggerated as to suggest that the film was shot through lubricated sackcloth. Acted with a wondrous woodenness to boot by Klinton Spilsbury in the name role, this appalling aberration is the closest to a Hara-kiri act yet committed by Lord Grade's production company.

Two excellent seasons claim

your attention at the National Film Theatre this month. "The Romantic Image" celebrates John M. Stahl, a Hollywood director of a stylish and equal aptitude for comedy and melodrama, whose best-known films were Mark-I models of the "women's pictures" later remade by more famous weepie-maestro Douglas Sirk in the 1950s. Although Stahl was first in the field with *Imitation of Life*, *Magnificent Obsession* and *When Tomorrow Comes* (remade by Sirk as *Interlude*), Sirk's work has attracted more critical limelight in recent years. But that Stahl had his own grandeur is proved by the long-running liveliness of his career and by at least one unique and magnificent movie that one doubts anybody could remake—so delicately does it tightrope-walk over absurdity—without falling sheer to his doom.

Leave Her to Heaven, showing at the NFT on August 18, is a bubbling brew of jealousy, murder and frustrated passion involving Cornel Wilde, Gene Tierney, much palatial scenery and many mythopoetic sunsets. This astonishing *danse macabre* of familial ferocity—Tierney's possessive love as Wilde's wife prompts her to do away with all who come near, competing for his affection—is filmed in a bronzy, rich-textured Technicolor the like of which you will seldom have seen: fulminous colours, swirling shadows, a sumptuous minuteness of detail.

Shohei Imamura, to whom the National Film Theatre devotes a concurrent season, is a spikily original talent from Japan and one of the small handful of directors who have successfully stormed into the breach left by the (virtual) retirement of Kurosawa and Ichikawa. His strong, caustic pictures of Japanese society range from the black-comedy brio of *The Pornographer* via the grainy documentary style of *Post-War History of Japan as Told by a Bar Hostess* to the stark pessimism of *Vengeance Is Mine*, his latest film to be seen in this country and a fearsome assault-course through the life and mind of a multiple murderer, and the brackish embattled society from which he springs. Imamura holds joint sway with Stahl at the NFT until the end of August.

"Het Werkteater" is a Dutch drama group who specialise, so

their Press handout vouchsafes to us, in "performing plays to audiences whose daily life involves contact with people suffering from serious illnesses."

Erik van Zuylen's *In For Treatment*, a powerful film version of one of their plays, can hardly be more comforting to the sick and their friends and relatives than a terminal diagnosis. It follows the grim fortunes of a middle-aged market-gardener (played by Helmut Woudenberg) who after being detained for long and mysterious weeks in hospital for "tests" and "examinations" finally discovers he has a malignant brain tumour. This after nurses have bustled briskly about, batting away his anxieties, and doctors, saying "This won't hurt," have inserted tubes and thermometers into nameless regions and planted oil-derricks in his chest to pump for blood. By the middle of the film your stomach has taken up almost permanent residence in the back of your mouth.

Fortunately the film has the kindness to go on and cast a slightly more optimistic light, if not on the patient's chances of recovery at least on the department and good will of the hospital staff. *In For Treatment* is



Greenwich

The Killing Game

by B. A. YOUNG

Lieutenant-Colonel Guy Holden, DSO, MC, commanding the London Regiment (which has changed since I served in it) plays games with his batman, like pretending to shoot him or knife him. He does this even when his wife Clarissa is there, or her father, a retired general, once Colonel of the Regiment. His second-in-command, George Bradley, newly appointed from the Cheshires, disapproves of his CO; he openly avers that the DSO was won for massaging Irish teenage boys and a woman.

Clarissa's trouble is that she

court-martial by the general and the colonel and his wife, ending in a death sentence which only turns out to be another of those games.

A few points for the attention of Thomas Muschamp, author, and Derek Martinus, director. Majors don't call colonels "sir" in their homes, or colonels generals. A brigadier is not a general. Bradley couldn't have been appointed to command the London Regiment when he has openly shown his disloyalty to the colonel. Senior officers don't discuss intimate matters in the presence of their wives

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~~17 August 1981~~

The Prime Minister has seen and noted the Chancellor's minute of 11 August, about United States economic policy.

MAP

~~Peter Jenkins, Esq.,
H.M. Treasury.~~

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My