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November 21, 1990

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The President  
The White House  
Washington, DC 20500

Dear Mr. President

Thank you for the opportunity to attend the meeting on November 15 to discuss the economy and credit markets. I commend the initiative to seek views from a wide variety of fields.

Based on observations since then, I remain convinced that there is not a deep or long recession in prospect. The economy appears more likely to follow a path between modest growth and a slight decline over the near term. The factors which normally cause a severe and prolonged downturn simply are not present.

In my view, the most influential depressant is the Persian Gulf crisis. Consumer confidence and spending dropped noticeably following the beginning of that episode last August. The mood soured further after the additional troop build-up was announced recently. This seemed to be perceived as an ominous signal.

Another nagging concern in the minds of many which constrains business activity is the increase in federal spending and taxes along with the prospect of a larger budget deficit. Figures such as those on the report I gave you showing a 15.8 percent increase in Congress's own spending have a tendency to arouse suspicion about the seriousness of the budget accord.

Finally, the problems of the financial system also serve in some measure to retard growth, but to a lesser extent than the two factors mentioned above, in my opinion. Thrifts and banks began some time ago to undergo a period of adjustment caused by excesses in public policy and lending practices.

It will take much longer for some institutions to work out of their problems, but I cannot find any significant evidence of worthy borrowers being unable to obtain funds. Credit expansion will be subdued for years because of the extraordinary growth during the eighties reflected on the chart I gave you.

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In my observation, financial regulators generally are fair and reasonable in their asset quality classifications. There probably is some overzealousness, but I believe it is minor. The main shortcoming of thrift and bank supervisors has been in not doing more stringent examinations sooner.

In essence, market forces are at work which will correct imbalances if allowed to proceed and should lay a better foundation for healthier and sustainable growth in the future. This necessarily will involve temporary pain in some sectors. I expressed most of these thoughts at our meeting but felt it might be helpful for you to have a brief summary of them.

I hope you had a productive if not enjoyable trip to Europe and the Middle East. The key to sustained and healthy economic growth may depend more on events abroad than at home.

You have my admiration and appreciation for the great job you are doing for the American people. With warmest regards and best wishes for continued success in your vital work,

Sincerely,



John G. Medlin, Jr.

cc: The Honorable Nicholas Brady  
The Honorable Richard Darman  
The Honorable John Sununu

bc: Mr. Boyden Gray ✓  
The Honorable John Robson

Bush Presidential Library Protocol