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TELEGRAM NUMBER 539 OF 18 FEBRUARY

PRESIDENT REAGAN'S PRESS CONFERENCE 18 FEBRUARY: THE ECONOMY.

1. PRESIDENT REAGAN GAVE A PRESS CONFERENCE THIS AFTERNOON. THE PRINCIPAL ISSUE COVERED WAS THE U S ECONOMY. POINTS ON CENTRAL AMERICA, THE MIDDLE EAST AND POLISH DEBT ARE BEING REPORTED IN SEPARATE TELEGRAMS.

2. IN AN OPENING STATEMENT, THE PRESIDENT SAID THAT HE HAD UNDERTAKEN A YEAR AGO, TO CONTROL THE UNCONTROLLABLE IE GOVERNMENT SPENDING WHICH HAD REACHED AN INTOLERABLE AND INCOMPREHENSIBLE LEVEL. AS PART OF THIS TASK HE WOULD NOW ESTABLISH A PRIVATE SECTOR SURVEY ON COST CONTROL IN THE FEDERAL GOVERNMENT. A HIGH-POWERED, INDEPENDENT TEAM WOULD UNDERTAKE AN IN-DEPTH REVIEW OF THE ENTIRE EXECUTIVE BRANCH OF THE FEDERAL GOVERNMENT IN ORDER TO ROOT OUT WASTE AND INEFFICIENCY. THE TEAM WOULD REPORT DIRECT TO THE PRESIDENT AND WOULD BEGIN THEIR REVIEW WITH THE DEPARTMENTS OF DEFENSE, HEALTH AND HUMAN SERVICES AND HOUSING AND URBAN DEVELOPMENT.

3. REVIEWING HIS ECONOMIC PROGRAMME, THE PRESIDENT SAID THAT THE U S ECONOMY WAS NOT YET OUT OF THE WOODS BUT WAS HEADING TOWARDS A CLEARING. HE HIMSELF REMAINED CONCERNED AT THE LEVEL OF INTEREST RATES BUT THE ADMINISTRATION AND THE FEDERAL RESERVE BOARD WOULD BE BETTER EQUIPPED TO BRING DOWN INTEREST RATES AND THE RATE OF INFLATION IF THEY WORKED TOGETHER. HE HAD CONFIDENCE IN THE ACCOUNCED POLICIES OF THE FED AND SUPPORTED THE FED'S 1982 MONEY GROWTH TARGETS WHICH WERE FULLY CONSISTENT WITH THE ADMINISTRATION'S ECONOMIC PROJECTIONS FOR THE COMING YEAR. A RESPONSIBLE FISCAL POLICY WAS NEEDED TO COMPLEMENT A FIRM, ANTI-INFLATIONARY MONETARY POLICY. HE WOULD DEVOTE THE RESOURCES OF HIS PRESIDENCY TO KEEPING DEFICITS DOWN. BY PURSUING A PRUDENT COURSE OF SOUND FISCAL AND MONETARY POLICIES INFLATION WOULD CONTINUE TO DECLINE, INTEREST RATES WOULD FALL AND THE U S WOULD ONCE AGAIN ENJOY SUSTAINED ECONOMIC GROWTH.

4. ANSWERING QUESTIONS, THE PRESIDENT SAID THAT, WHILE THE ADMINISTRATION WOULD CONTINUE TO TRY TO CLOSE TAX LOOPHOLES, TO ABANDON ITS BASIC TAX CUT POLICY WOULD BE TO GIVE UP A VITAL INGREDIENT IN THE EXPANDING ECONOMY AND IN ADDING TO GOVERNMENT REVENUES WITHOUT PENALISING THE TAX PAYER. IT WOULD BE VERY FOOLISH TO TURN AWAY FROM THE TAX PACKAGE WHICH WOULD BE THE STRONGEST ELEMENT IN AN IMPROVING ECONOMY. SIMILARLY, THE U S COULD NOT BACK AWAY FROM INCREASES IN NATIONAL DEFENCE SPENDING WITHOUT SENDING

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A VERY UNWISE MESSAGE WHICH WOULD CAUSE DISMAY TO AMERICA'S ALLIES AND SATISFACTION TO POTENTIAL ADVERSARIES. THE PRESIDENT ENDORSED REMARKS MADE BY STOCKMAN IN CONGRESS YESTERDAY TO THE EFFECT THAT WHILE THE ADMINISTRATION WERE PREPARED TO LOOK AT PROPOSED CHANGES IN THE BUDGET, NO SERIOUS ALTERNATIVE HAD YET BEEN PUT FORWARD. THE PRESIDENT BELIEVED THAT HE AND HIS ADVISERS HAD ALREADY LOOKED AT ALL THE AVAILABLE OPTIONS IN DETAIL AND HAD COME UP WITH THE BEST PACKAGE IN THE CIRCUMSTANCES.

5. THE PRESIDENT DECLINED TO ENDORSE EARLIER ADMINISTRATION STATEMENTS LOOKING FORWARD TO ECONOMIC RECOVERY BY LATE SPRING. HE WOULD SAY NO MORE THAN THAT IN THE MONTHS, AND THE YEAR, AHEAD, THE RECESSION WOULD BOTTOM OUT, INTEREST RATES WOULD FALL AND SIGNS OF ECONOMIC RECOVERY WOULD BE APPARENT. HE DENIED THAT HE WAS LESS CONFIDENT NOW THAN HE HAD BEEN A MONTH AGO ABOUT THE PACE OF ECONOMIC RECOVERY, MAINTAINING THAT HE WAS CAUTIOUSLY OPTIMISTIC AND THAT ECONOMIC INDICATORS WERE POINTING IN THE RIGHT DIRECTION.

F C O PASS TO THE TREASURY.

HENDERSON

FCO/WHITEHALL
NAD

NOT ADVANCED