

GR 980
CONFIDENTIAL

CONFIDENTIAL

USA
M

FM WASHINGTON 142310Z OCT 82

TO PRIORITY FCO

TELEGRAM NUMBER 3347 OF 14 OCTOBER

INFO ROUTINE PARIS, BONN, TOKYO, UKMIS NEW YORK

INFO SAVING TO MOSCOW, UKREP BRUSSELS, UKDEL NATO, CG'S IN USA.

PRESIDENT REAGAN'S SPEECH TO THE NATION: THE US ECONOMY

1. PRESIDENT REAGAN SPOKE TO THE NATION LAST NIGHT ABOUT THE US ECONOMY. HIS NATIONALLY TELEVISED SPEECH, LASTING NEARLY HALF-AN-HOUR, WAS BILLED AS NON-PARTISAN. BUT IT WAS PROMPTED BY THE PRESIDENT'S ANXIETY ABOUT THE MID-TERM ELECTIONS ON 2 NOVEMBER (MY TELEGRAM NO. 3314) AND WAS NON-PARTISAN ONLY TO THE EXTENT THAT THE PRESIDENT MADE NO DIREREFERENCE TO THE DEMOCRATS. IT WAS OTHERWISE THE CAMPAIGN SPEECH HE HAS BEEN MAKING ACROSS THE COUNTRY IN RECENT DAYS. IT PROVOKED AN OUTCRY FROM THE DEMOCRATS WHO URGED THE TV NETWORKS EITHER NOT TO CARRY THE ADDRESS OR TO CHARGE FOR IT AS PAID ADVERTISING. IN THE END, ONLY ABC DECLINED TO BROADCAST THE SPEECH. IT WAS SHOWN AT PRIME VIEWING TIME AND WAS FOLLOWED, BY A DEMOCRATIC RIGHT OF REPLY (EXERCISED, BECAUSE OF THE RIVALRIES AMONG THE DEMOCRATIC PRETENDERS TO THE PRESIDENCY BY THE SCARCELY KNOWN SENATOR REIGLE OF MICHIGAN).

2. SPEAKING IN HIS BEST FIRESIDE STYLE AND APPEALING FREQUENTLY TO QUOTE MY FELLOW AMERICANS UNQUOTE, THE PRESIDENT PORTRAYED HIMSELF AS A MAN NOT INTERESTED IN PARTY IN-FIGHTING (QUOTE AT MY AGE I DIDN'T COME TO WASHINGTON TO PLAY POLITICS AS USUAL UNQUOTE) AND AS THE CHAMPION OF THE PEOPLE AGAINST GOVERNMENT. WITHOUT IDENTIFYING HIS TARGETS HE MADE IT VERY CLEAR THAT HE WAS LAYING THE BLAME FOR THE COUNTRY'S ECONOMIC PROBLEMS AT THE DOOR OF PREVIOUS ADMINISTRATIONS AND OF PREDOMINANTLY DEMOCRATIC CONGRESSES, SPEAKING OF YEARS IN WHICH THE FEDERAL GOVERNMENT HAD LIVED BEYOND ITS MEANS, OF GOVERNMENT-CAUSED INFLATION AND OF A MINORITY IN THE HOUSE OF REPRESENTATIVES, IE THE DEMOCRATS, WHO REFUSED TO GIVE THE PEOPLE THE BALANCED BUDGET WHICH THEY WANTED.

3. AT THE OUTSET, THE PRESIDENT SAID HIS ADMINISTRATION HAD FACED FIVE CRITICAL PROBLEMS: HIGH TAXES, RUN-AWAY GOVERNMENT SPENDING INFLATION, HIGH INTEREST RATES AND UNEMPLOYMENT. USING A CHART ON THE TV SCREEN, THE PRESIDENT TICKED OFF ONE BY ONE HIS SUCCESSES IN FOUR OUT OF FIVE OF HIS MAIN GOALS:

- (A) INCOME TAX RATES WERE DOWN 25 PER CENT.
- (B) THE RATE OF GROWTH IN GOVERNMENT SPENDING HAD BEEN CUT BY NEARLY TWO-THIRDS.
- (C) INFLATION WAS DOWN FROM 12.4 TO 5.1 PER CENT.
- (D) INTEREST RATES WERE DOWN FROM 21-1/2 PER CENT TO 12 PER CENT.

ONLY UNEMPLOYMENT, ALWAYS A LAGGING INDICATOR IN TIMES OF RECESSION,

CONFIDENTIAL

/HAD NOT

CONFIDENTIAL

HAD NOT YET STOPPED ITS UPWARD DRIFT. BUT MILLIONS OF AMERICANS HAD ALREADY REALISED THAT IT WAS INFLATION WHICH LED TO RECESSION AND UNEMPLOYMENT. THE SHORT TERM QUICK REFLATIONARY FIX, THE RESORT OF PREVIOUS GOVERNMENTS, HAD PROVOKED ONLY SHORT-TERM BURSTS OF ACTIVITY, ULTIMATELY LEAVING BOTH INFLATION AND UNEMPLOYMENT AT HIGHER LEVELS THAN BEFORE.

4. THE PRESIDENT SAID THAT GETTING AMERICANS BACK TO WORK WAS HIS PRINCIPAL GOAL. BUT IT COULD ONLY BE ACHIEVED THROUGH NATIONAL RECOVERY. MAKE NO MISTAKE, HE SAID, AMERICA WAS RECOVERY-BOUND AND THE WORLD KNOWS IT. THE NEW STRENGTH OF THE DOLLAR AND THE BOOM ON WALL STREET WERE CLEAR SIGNALS. INVESTMENT WAS COMING FROM THE INDIVIDUAL ON MAIN STREET AS WELL AS BIG BUSINESS. THE AMERICAN PEOPLE WERE NO LONG HEEDING THE DRUMBEAT OF DOOM AND GLOOM COMING FROM WASHINGTON.

5. THE PRESIDENT CONCLUDED HIS ADDRESS BY SETTING OUT AN AGENDA FOR CONGRESS, WHICH RETURNS FOR A LAME DUCK SESSION AT THE END OF NOVEMBER.

CONGRESS MUST:

- (A) DO ITS PART TO CONTROL GOVERNMENT SPENDING, INCLUDING ADOPTING THE ELEVEN OUTSTANDING APPROPRIATIONS BILLS. THE PRESIDENT WOULD USE HIS VETO TO KEEP SPENDING WITHIN THE BUDGET OUTLINE.
 - (B) RECONSIDER THE CRUCIAL CONSTITUTIONAL AMENDMENT TO BALANCE THE BUDGET.
 - (C) ACT ON REGULATORY REFORM TO MAKE GOVERNMENT MORE ECONOMIC AND EFFICIENT, AND THE PRIVATE SECTOR MORE PRODUCTIVE.
 - (D) ADOPT THE ENTERPRISE ZONES INITIATIVE SO FAR APPROVED ONLY BY COMMITTEE.
 - (E) PASS THE CLEAN AIR BILL TO PROTECT THE ENVIRONMENT AND ENABLE INDUSTRY TO REBUILD ITS PRODUCTIVE BASE AND CREATE MORE JOBS.
- REITERATING THE APPEAL HE HAS BEEN MAKING UP AND DOWN THE COUNTRY MR REAGAN URGED AMERICANS TO REJECT THE OLD WAYS AND TO JOIN WITH HIM IN STAYING THE COURSE.

COMMENT

6. A POLL TAKEN BEFORE THE SPEACH AND PUBLISHED IN TODAY'S WASHINGTON POST SHOWS THAT A MAJORITY OF THOSE SURVEYED NATIONWIDE BELIEVE THEY ARE WORSE OFF NOW THAN WHEN MR REAGAN TOOK OFFICE. THIS IS A MEASURE OF THE PRESIDENT'S PROBLEM IN THE PRESENT CAMPAIGN.

²
CONFIDENTIAL

/DESPITE

CONFIDENTIAL

DESPITE HIS SUCCESSES, AMERICANS THINK THAT THINGS ARE GOING BADLY FOR THEM AND ARE UNLIKELY TO GET BETTER QUICKLY. INDIVIDUALS HAVE NOT YET BEGUN TO FEEL THE BENEFIT OF REDUCED INFLATION AND/LOWER INTEREST RATES. THEY DO NOT SEE AN END TO THE RECESSION AND HAVE INTERPRETED THE UNEMPLOYMENT FIGURES AS CONFIRMING THE GLOOMY PROSPECTS. THE PRESIDENT SET OUT LAST NIGHT TO CONVINCE THE VOTERS THAT, IF ONLY THEY WILL STICK WITH HIM THEY WILL REAP THE REWARDS OF THE PAINFUL MEASURES HE HAS HAD TO TAKE. TO JUDGE BY POLLING AT A NATIONAL LEVEL, IT LOOKS AS IF THE ELECTORATE IS GROWING WEARY OF GIVING REPUBLICANS THE BENEFIT OF THE DOUBT. BUT THE DEMOCRATS HAVE NOT THEMSELVES BEEN ABLE TO COME UP WITH ANY VERY CONVINCING ALTERNATIVES. MID-TERM ELECTIONS ARE A SERIES OF INDIVIDUAL RACES IN EACH STATE AND DISTRICT: AND IT IS NOT YET CLEAR WHETHER THERE IS A STRONG ENOUGH ANTI-REPUBLICAN TIDE IN THOSE INDIVIDUAL DISTRICTS WHERE THE DEMOCRATS MUST WIN THE 30 OR MORE SEATS IN THE HOUSE THAT THEY WOULD NEED TO INFLECT A SIGNIFICANT POLITICAL DEFEAT ON THE PRESIDENT AND HIS PARTY.

FCO PASS SAVING: MOSCOW UKREP BRUSSELS UKDEL NATO.

WRIGHT

(REPEATED AS REQUESTED)

FCO/WHITEHALL
NAD

3
CONFIDENTIAL