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FM WASHINGTON 132352Z

TO PRIORITY F C O

TELNO 86 OF 13 JANUARY 1983

INFO MODUK (DS1 AND DS12), UKDEL NATO, BONN, PARIS, MOSCOW,  
INFO SAVING CONSULS GENERAL IN THE U.S.A.

REAGAN ADMINISTRATION: THE BUDGET

1. THE IMMEDIATE CAUSE OF THE BAD PRESS PRESIDENT REAGAN HAS BEEN RECEIVING IN RECENT DAYS (MY TELNO 79) HAS BEEN THE DEBATE ON THE BUDGET WHICH HAS BEEN GOING ON WITHIN THE WHITE HOUSE AND HAS BEEN EXTENSIVELY AIRED IN THE COLUMNS OF THE PRESS AS A RESULT OF UNAUTHORISED WHITE HOUSE LEAKS.

2. AT HIS PRESS CONFERENCE A WEEK AGO, THE PRESIDENT SOUGHT TO CONVEY THE IMPRESSION THAT, WHILE NO DECISIONS HAD BEEN TAKEN, ON THE BUDGET FOR FY84 WHICH IS TO BE PRESENTED TO CONGRESS AT THE END OF THIS MONTH, HE WAS NONETHELESS CONFIDENT THAT HE COULD CONTINUE TO SET THE ECONOMIC AGENDA AS IN THE PAST (NO TAX INCREASES: REDUCTION IN SOCIAL SPENDING AND MAINTAINING PLANNED INCREASES IN DEFENCE SPENDING). THE GROUND WAS IMMEDIATELY CUT FROM UNDER THE PRESIDENT'S FEET FIRSTLY BECAUSE IT WAS WELL KNOWN THAT HIS ADVISERS WERE ALL TELLING HIM THAT HE MUST TAKE STEPS TO CUT THE BUDGET DEFICIT (PROJECTED AT DOLLARS 200 BILLION FOR FY84): AND SECONDLY BECAUSE A SUCCESSION OF REPUBLICAN LEADERS IN CONGRESS, MOST NOTABLY THE PRESIDENT'S ALTER-EGO ON CAPITOL HILL, SENATOR LAXALT, TOLD THE PRESIDENT AND THE PRESS THAT THERE WOULD BE NO SUPPORT WITHIN CONGRESS FOR REDUCTIONS IN SOCIAL SPENDING, THAT THE DEFICIT MUST BE REDUCED AND THAT THOSE REDUCTIONS MUST ENCOMPASS SOME DECREASE IN PROJECTED DEFENCE SPENDING.

3. ALL THE SIGNALS FROM THE WHITE HOUSE OVER THE LAST FEW DAYS INDICATE THAT THE PRESIDENT HAS COMPROMISED, BUT THE TURN-AROUND HAS NOT BEEN SKILFULLY HANDLED AND IT IS CLEAR THAT THE STATE OF THE ECONOMY IS DICTATING POLICY RATHER THAN THE OTHER WAY AROUND. THE LATEST INDICATIONS FROM THE WHITE HOUSE AND FROM WEINBERGER HIMSELF ARE THAT THE PRESIDENT AIMS TO FIND CUTS OF AROUND DOLLARS 11.3 BILLION IN THE DEFENCE BUDGET AND A FURTHER DOLLARS 6 BILLION IN THE CIVIL BUDGET BY IMPOSING A PAY FREEZE ON FEDERAL OFFICIALS AND SERVING MEMBERS OF THE ARMED FORCES. IN ADDITION, THE PRESIDENT IS BELIEVED TO BE CONTEMPLATING AN INCOME TAX SURCHARGE WHICH WOULD ONLY COME INTO AFFECT IN TWO YEAR'S TIME IF THE DEFICIT HAD NOT BEEN REDUCED BEYOND A CERTAIN POINT IN THE MEANTIME. THE PROPOSAL FOR A FREEZE ON PLANNED PAY INCREASES FOR FEDERAL OFFICIALS AND THE ARMED FORCES IS LIKELY TO PROVOKE A FURORE IN CONGRESS PARTICULARLY IF, AS EXPECTED, THE PRESIDENT GOES ON TELEVISION IN THE NEAR FUTURE TO SEEK PUBLIC SUPPORT FOR THE MEASURE OF A SACRIFICE IN THE NATIONAL INTEREST.

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/SPEAKER



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SPEAKER O'NEILL'S STAFF HAVE TOLD US THAT THE DEMOCRATS IN CONGRESS WOULD "RAISE HELL" OVER THE PROPOSAL, NOT ONLY BECAUSE IT WOULD MAKE ONLY A SMALL DENT IN THE BUDGET BUT BECAUSE IT WOULD UNDERMINE THE CONSIDERABLE PROGRESS WHICH HAS BEEN MADE IN THE LAST TWO YEARS IN IMPROVING THE MORALE AND READINESS OF AND THE QUALITY OF RECRUITMENT TO THE ARMED FORCES, WHILE SEEKING TO PRESERVE ALL EXISTING WEAPONS PROGRAMMES.

5. WEINBERGER FOUGHT HARD TO MAINTAIN SOME INCREASE IN ARMED FORCES PAY IN THE COMING YEAR I.E. A 4% INCREASE COMPARED WITH A PROJECTED INCREASE OF 7.6%, BUT WAS NOT PREPARED TO CUT BACK EQUIPMENT PROGRAMMES. IN DECIDING TO OPT FOR A COMPLETE FREEZE, THE PRESIDENT IN EFFECT IS SAYING THAT IF CONGRESS WANT CUTS IN THE DEFENCE BUDGET THEY WILL HAVE TO ACCEPT THEM IN THIS PAINFUL AND UN-PALATABLE FORM. BUT THE PRESIDENT DOES NOT HAVE THE POWER TO DICTATE TO CONGRESS THE FORM WHICH CUTS MUST TAKE. THERE WILL BE STRONG CONGRESSIONAL DEMANDS FOR CUTS IN PROGRAMMES RATHER THAN IN PAY AND REDUCTIONS.

WRIGHT

**THIS TELEGRAM  
WAS NOT  
ADVANCED**

**COPIES SENT TO  
No. 10 DOWNING STREET**

STANDARD  
NAD  
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