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 FM WASHINGTON 270110Z FEB 82
 TO ROUTINE FCO
 TELEGRAM NUMBER 652 OF 26 FEBRUARY
 INFO SAVING PARIS BONN UKREP BRUSSELS TOKYO OTTAWA

mw Schuler

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US BUDGET DEFICITS

1. IN A REPORT RELEASED YESTERDAY, THE CONGRESSIONAL BUDGET OFFICE (CBO), WHICH IS CHARGED WITH PROVIDING NON-PARTISAN BUDGET ADVICE TO CONGRESS, SAID THAT THE ADMINISTRATION HAD UNDERESTIMATED THE BUDGET DEFICIT FOR FISCAL YEAR 1983 BY SOME DOLLARS 29BN, AND WARNED OF QUOTE CONTINUING LARGE AND GROWING DEFICITS INTO THE FORESEEABLE FUTURE UNQUOTE.
2. THE ECONOMIC FORECASTS OF BOTH THE ADMINISTRATION AND THE CBO ARE IN CLOSE AGREEMENT IN 1982. BUT IN 1983 THE ADMINISTRATION'S FORECAST IS MORE OPTIMISTIC THAN THE CBO'S. THE ADMINISTRATION LOOK FOR REAL GNP TO GROW BY 5.2 PERCENT OVER THE FOUR QUARTERS OF 1983 AND INFLATION (AS MEASURED BY THE GNP DEFLATOR) TO BE 5.5 PERCENT. THE CBO EXPECTS REAL GNP TO GROW BY ABOUT 3.7 PERCENT IN 1983 AND INFLATION TO BE 7.0 PERCENT. THE ADMINISTRATIONS ECONOMIC ASSUMPTIONS FOR 1984 AND BEYOND ARE ALSO MORE OPTIMISTIC THAN THE CBO'S.
3. THE CBO'S ANALYSIS FINDS THAT REVENUES ARE LIKELY TO BE SLIGHTLY LOWER AND OUTLAYS SIGNIFICANTLY HIGHER THAN PROJECTED BY THE ADMINISTRATION. THE REVENUE DIFFERENCES RESULT MAINLY FROM ESTIMATED EFFECTS OF THE ECONOMIC RECOVERY TAX ACT OF 1981. ON THE OUTLAY SIDE, THE MAIN DIFFERENCES ARE IN ESTIMATES OF THE COST OF FARM PRICE SUPPORT, THE RATE OF SPENDING FOR DEFENCE PROCUREMENT, LIKELY RECEIPTS TO BE DERIVED FROM THE PROPOSED ACCELERATED SALE OF OFF-SHORE OIL LEASES, AND NET INTEREST COSTS.
4. THE UPSHOT IS THAT THE CBO ESTIMATES THE BUDGET DEFICIT (ASSUMING THE ADMINISTRATION'S BUDGET MEASURES ARE ENACTED) TO BE DOLLARS 111BN IN FY82, DOLLARS 120BN IN FY83, DOLLARS 129BN IN FY84 AND DOLLARS 140BN IN FY85. THIS COMPARES WITH ADMINISTRATION ESTIMATES OF DOLLARS 98BN IN FY82, DOLLARS 92BN IN FY83, DOLLARS 83BN IN FY84 AND DOLLARS 72BN IN FY85. THE CBO WARN THAT THE BUDGET DEFICIT COULD BE EVEN LARGER, IF TIGHT CREDIT CONDITIONS PRODUCE A WEAKER ECONOMY THAN ASSUMED.
5. EARLIER THIS WEEK, SENATOR DOMENICI (REPUBLICAN CHAIRMAN OF THE SENATE BUDGET COMMITTEE) SAID THAT THE PRESIDENT'S FY83 BUDGET PROPOSALS WOULD NOT PASS CONGRESS IN THEIR CURRENT FORM BECAUSE OF CONGRESSIONAL CONCERN OVER THE SIZE OF PROJECTED DEFICITS. THE CBO REPORT WILL ADD IMPETUS TO CONGRESSIONAL ATTEMPTS TO REDUCE THE DEFICIT. HOUSE MINORITY LEADER MICHEL (REPUBLICAN, ILLINOIS) TOLD REPORTERS YESTERDAY THAT THE BILL TO INCREASE THE DEBT CEILING THAT THE ADMINISTRATION WILL NEED IN APRIL OR MAY CANNOT PASS THE HOUSE IN THIS ELECTION YEAR UNLESS IT IS LINKED

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TO A QUOTE BUDGET RESOLUTION THAT INDICATES WE ARE NARROWING THE DEFICIT SOMEWHAT UNQUOTE BELOW THE DOLLARS 92 BILLION FORECAST BY THE PRESIDENT FOR FY83. (THE STATUTORY LIMIT ON THE DEBT CEILING GIVES THE CONGRESS A LEVER TO GET WHAT IT WANTS FROM THE ADMINISTRATION PROVIDED A BIPARTISAN PACKAGE CAN BE PUT TOGETHER.) MICHEL SAID THE WAY TO CUT THE DEFICIT WAS TO TRIM THE PRESIDENT'S PLANNED DEFENCE INCREASES, REDUCE COST OF LIVING INCREASES UNDER CERTAIN ENTITLEMENT PROGRAMMES, AND DEFER THE FINAL ROUND OF THE REAGAN INCOME TAX CUT NOW SCHEDULED FOR JULY 1983. THESE SUGGESTIONS PARALLEL RATHER SIMILAR PROPOSALS PUT FORWARD IN RECENT DAYS BY LEADING SENATE REPUBLICANS, INCLUDING BUDGET CHAIRMAN DOMENICI. IT IS POSSIBLE THAT A BIPARTISAN PACKAGE WILL EMERGE FROM THE SENATE BUT LESS LIKELY THAT ONE WILL EMERGE FROM THE HOUSE OF REPRESENTATIVES, WHERE THE DEMOCRATS HAVE A MAJORITY.

6. THE ADMINISTRATION HAVE NOT SO FAR REACTED TO THESE DEVELOPMENTS OTHER THAN TO DESCRIBE SENATOR DOMENICI'S PROPOSALS AS QUOTE INTERESTING AND WORTH FURTHER STUDY UNQUOTE. OFFICIALS CONTINUE TO EMPHASISE THE NEED TO PERSEVERE WITH THE PRESIDENT'S ECONOMIC PROGRAMME. THE ADMINISTRATION HAVE BEEN POINTING TO TWO BRIGHT SPOTS - THE RECENT DECLINE IN INTEREST RATES AND THE DECLINE IN THE RATE OF INFLATION, WHICH ROSE BY ONLY 0.3 PERCENT IN JANUARY TO STAND 8.4 PERCENT ABOVE ITS LEVEL OF A YEAR EARLIER.

7. FCO PLEASE PASS TO BOTTRILL (TREASURY) AND WATSON (BANK OF ENGLAND) AND ALL SAVING ADDRESSEES.

FCO PASS SAVING TO ALL SAVING ADDRESSEES.

THOMAS

REPEATED AS REQUESTED

FINANCIAL

NAD

COPIES TO
MR BOTTRILL, TREASURY
MR WATSON, B/ENGLAND

THIS TELEGRAM
WAS NOT
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