

USA

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FM WASHINGTON 290430Z JUL 82
TO IMMEDIATE FCO
TELEGRAM NUMBER 2591 OF 29 JULY

PRESIDENT REAGAN'S PRESS CONFERENCE.

1. THE PRESIDENT HELD A PRESS CONFERENCE THIS EVENING (28 JULY): MAIN THEMES WERE THE ECONOMY AND THE MIDDLE EAST.

2. THE ECONOMY.

THE PRESIDENT REITERATED HIS STRONG SUPPORT FOR A CONSTITUTIONAL AMENDMENT TO BALANCE THE FEDERAL BUDGET. HE URGED PASSAGE OF THE AMENDMENT IN HIS OPENING STATEMENT, NOTING THAT CONSISTENT BUDGET DEFICITS THROUGH THE YEARS HAD QUOTE BROUGHT THE ECONOMY TO ITS KNEES UNQUOTE. HE BELIEVED THAT CONGRESSIONAL APPROVAL WOULD IMPROVE THE CLIMATE OF OPINION ABOUT PROSPECTIVE BUDGET DEFICITS AND THAT THIS WOULD HELP BRING INTEREST RATES DOWN.

3. THE PRESIDENT VIGOROUSLY DEFENDED HIS SUPPORT OF THE AMENDMENT WHILE SIMULTANEOUSLY SUBMITTING TO CONGRESS A BUDGET FOR FY 1983 WITH A RECORD DEFICIT. HE BLAMED THE DEMOCRATS FOR FAILING TO GIVE HIS ADMINISTRATION ALL THE BUDGET REDUCTIONS THAT HE HAD SOUGHT. MOREOVER HE WAS QUOTE NOT THROUGH WITH CUTS IN SPENDING UNQUOTE AND WOULD BE PROPOSING MORE NEXT YEAR.

4. ON THE STATE OF THE ECONOMY, THE PRESIDENT INSISTED THAT THE RECESSION WAS BOTTOMING OUT AND THAT THERE WOULD BE AN IMPROVEMENT IN THE SECOND HALF OF THIS YEAR. THIS RECOVERY WOULD BE SUSTAINED AND WOULD BE BASED ON SOLID GROWTH RATHER THAN THE QUICK AND ILLUSORY SOLUTIONS EMPLOYED BY PREVIOUS ADMINISTRATIONS. HE REJECTED CRITICISM THAT THE ADMINISTRATION'S ECONOMIC FORECASTS HAD BEEN CONSISTENTLY OPTIMISTIC. FOR EXAMPLE INFLATION HAD BEEN REDUCED MUCH MORE RAPIDLY THAN HAD BEEN FORECAST LAST YEAR: INDEED THE EFFECT OF REDUCED INFLATION ON TAX REVENUE WAS ONE OF THE FACTORS THAT HAD LED TO A HIGHER BUDGET DEFICIT.

5. THE PRESIDENT SAID THAT HE WAS DISTRESSED BY THE TIME IT WAS TAKING TO PUT RIGHT THE DAMAGE DONE BY PAST ADMINISTRATIONS: BUT THE TASK WAS SLOWLY AND SURELY BEING DONE AND MANY AMERICANS WERE ALREADY BENEFITTING FROM THE ADMINISTRATION'S SOUNDER ECONOMIC POLICIES.

6. REAGAN WAS IMPRECISE ON THE MIDDLE EAST. HE EXPRESSED OPTIMISM THAT HABIB WOULD FIND A SOLUTION TO THE CRISIS IN THE LEBANON WHICH WOULD INVOLVE THE REMOVAL OF ARMED PLO FORCES TO THIRD COUNTRIES AND THE WITHDRAWAL OF ALL FOREIGN TROOPS, INCLUDING THE ISRAELIS AND SYRIANS, FROM LEBANON. THE US WANTED LEBANON ONCE AGAIN TO BE UNDER A CENTRAL GOVERNMENT WITH UNITED ARMED FORCES. HABIB WAS DOING AN EXCELLENT JOB: THE PRESIDENT REFUSED TO GO INTO DETAILS, PARTICULARLY REGARDING US/ISRAELI CONTACTS.

/7.PRESIDENT

7. PRESIDENT REAGAN SAID THAT IT WOULD BE A STEP FORWARD IF THE PLO DROPPED ITS REFUSAL TO RECOGNIZE ISRAEL'S RIGHT TO EXIST AND ACKNOWLEDGED UNSCR 242 AND 338: HE ADDED THAT THE RECENT CALL BY US CONGRESSMEN ON ARAFAT WAS NOT WELL TIMED. ASKED IF HE SUPPORTED THE IDEA OF A PALESTINIAN STATE, HE REPLIED THAT THE US WAS ESSENTIALLY AN INTERMEDIARY AND WOULD NOT IMPOSE ITS VIEWS: IT WAS UP TO THOSE DIRECTLY INVOLVED TO DECIDE. HE ADDED THAT THE AUTONOMY TALKS, WHICH WERE RELEVANT, WERE A CASUALTY OF THE LEBANON CRISIS.

8. ALLIANCE. THE PRESIDENT CLAIMED THAT DISAGREEMENT OVER THE PIPELINE WAS A FAMILY QUARREL: EACH SIDE KNEW IN ADVANCE THE POSITION OF THE OTHER. HE HAD NO SECOND THOUGHTS ABOUT HIS ADMINISTRATION'S ACTIONS, ALTHOUGH HE INSISTED THAT HE WOULD REVIEW THE POSITION WITH REGARD TO THE PIPELINE IF THE POLISH MILITARY GOVERNMENT WOULD QUOTE SOFTEN OR RELEASE ALL THE PEOPLE INCLUDING LECH WALESZA, IF THEY SHOULD REOPEN CONVERSATIONS WITH SOLIDARITY UNQUOTE. HE DENIED THAT US GRAIN SALES TO THE SOVIET UNION WERE INCONSISTENT WITH AMERICAN ACTION ON THE PIPELINE. GRAIN WAS AVAILABLE FROM MANY SOURCES, AND A U.S. EMBARGO SUCH AS CARTER'S AFTER AFGHANISTAN HAD HURT AMERICAN FARMERS MORE THAN THE RUSSIANS: PIPELINE TECHNOLOGY, ON THE OTHER HAND, WAS ESSENTIALLY AMERICAN, AND THE RUSSIANS WOULD BE HURT BY ITS WITHDRAWAL. FURTHERMORE THE SOVIET UNION HAD TO DEplete ITS SCARCERESERVES OF FOREIGN RESERVES TO BUY AMERICAN GRAIN, WHILE THE PIPELINE PROJECT WOULD ACTUALLY EARN THEM HARD CASH.

9. CHINA. THE PRESIDENT SAID THAT HE WANTED TO DEVELOP RELATIONS WITH THE PEOPLES REPUBLIC: BUT HE WOULD NOT ABANDON AMERICA'S LONG TERM ALLIES ON TAIWAN. THE US HAD A MORAL OBLIGATION TO THE TAIWANESE. HE WOULD ABIDE BY THE TERMS OF THE TAIWAN RELATIONS ACT.

10. EL SALVADOR. PRESIDENT REAGAN CONCEDED THAT ABUSES CONTINUES: NEVERTHELESS, THE SALVADORAN GOVERNMENT WAS DOING ITS BEST TO CURB THEM. STATE DEPARTMENT WITNESSES WOULD TESTIFY BEFORE CONGRESS SHORTLY THAT CONTINUED US AID WAS JUSTIFIED. THE FALSE PROPAGANDA AND DIFINFORMATION ON EL SALVADOR HAD BEEN EXPOSED BY THE MASSIVE TURN-OUT DURING THE RECENT ELECTIONS.

11. THE PRESIDENT REFUSED TO CRITICIZE THE INTERIOR SECRETARY, JAMES WATT, FOR RECENT INDISCRETIONS. HE USED UP SEVERAL MINUTES DEALING WITH AN IMPORTUNATE LADY JOURNALIST ON AN OBSCURE QUESTION ABOUT WOMEN'S RIGHTS.

HENDERSON

PCO/WHITEHALL
NAD