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 TELEGRAM NUMBER 2796 OF 20 AUGUST
 INFO SAVING UKMIS NEW YORK, CG'S IN USA.

MY TELNO 2757: PRESIDENT REAGAN: TAX INCREASE

1. CONGRESS YESTERDAY PASSED MR REAGAN'S DOLLARS 98.3 BILLION TAX BILL. THE VOTE WAS 226 TO 207 IN THE HOUSE AND 52 TO 47 IN THE SENATE. IN THE HOUSE, WHERE THE VOTE WAS IN DOUBT UP TO THE LAST MINUTE, 103 REPUBLICANS VOTED FOR THE BILL AND 87 AGAINST. THE PRESIDENT THUS HAD TO DEPEND ON A LARGE NUMBER OF DEMOCRATIC VOTES TO GET THE MEASURE THROUGH. IN THE SENATE, THERE WERE LESS REPUBLICAN DEFECTIONS BUT, EVEN HERE, THE PRESIDENT HAD TO RELY ON LIBERAL DEMOCRATS SUCH AS SENATOR KENNEDY TO GET HIS BILL.

2. OVER THE PAST FEW DAYS, THE PRESIDENT HAS HAD TO GRIN AND BEAR IT AS, ONE AFTER THE OTHER, LIBERAL DEMOCRATS SUCH AS KENNEDY, O'NEILL AND GOVERNOR JERRY BROWN OF CALIFORNIA, HAVE PUBLICLY ENDORSED THE BILL. CONSERVATIVE REPUBLICANS, TO WHOM THESE MEN ARE ANATHEMA, SAW THIS LIBERAL DEMOCRATIC SUPPORT AS FURTHER EVIDENCE THAT THE PRESIDENT HAD MADE A HORRIBLE MISTAKE IN EMBRACING THIS PIECE OF LEGISLATION. BEFORE THE VOTE WAS TAKEN TIP O'NEILL MADE AN EMOTIONAL APPEAL TO THOSE REPUBLICANS WHO HAD WON THEIR SEATS ON MR REAGAN'S COAT-TAILS NOT TO DESERT HIM NOW THAT HE WAS MAKING A CHANGE OF POLICY IN THE NATIONAL INTEREST. THIS DID LITTLE TO RALLY THE WAVERERS BUT SKILFULLY EXPLOITED REPUBLICAN UNEASE.

3. MR REAGAN MOUNTED AN UNPRECEDENTED LOBBYING OPERATION IN SUPPORT OF THE BILL, MEETING, TELEPHONING AND CAJOLING HIS SUPPORTERS UP TO THE LAST MINUTE. HE WOULD HAVE SUFFERED A SERIOUS BLOW TO HIS PRESTIGE IF HE HAD LOST. EVEN SO, REPUBLICANS WILL NOW FACE AN AWKWARD NOVEMBER CAMPAIGN, EITHER HAVING TO CONCEDE THAT LAST YEAR'S MEASURES HAVE NOT WORKED OR, IN THE CASE OF THOSE WHO VOTED AGAINST THE PRESIDENT, HAVING TO CLAIM THAT THEY ARE NOW THE ONLY ONES STILL IN STEP. HAVING FOUGHT TOOTH AND NAIL AGAINST THE BILL THEY CAN HARDLY PRETEND TO BELIEVE THAT ALL WILL BE WELL WITH THE ECONOMY NOW THAT IT HAS PASSED. AT THE SAME TIME, THEY HAVE TURNED THEIR BACK ON THE PRESIDENT AND DAMAGED HIS CREDIBILITY ON WHICH THEY STILL DEPEND FOR RE-ELECTION.

4. ALTHOUGH THE TAX BILL ITSELF IS CAREFULLY BALANCED IT CONTAINS A NUMBER OF MEASURES THAT WILL AFFECT THE CONSUMER: A 100 PERCENT INCREASE IN THE TAX ON CIGARETTES (WHICH HAD NOT HOWEVER BEEN ADJUSTED SINCE): A 1 PERCENT TO 3 PERCENT RISE IN TELEPHONE EXCISE TAX AND A SMALL INCREASE (TO 8 PERCENT) ON THE TAX ON AIR TICKETS. SPENDING ON THE MEDICARE PUBLIC MEDICINE PROGRAMME IS TO BE CUT BY DOLLARS 13 BILLION OVER THREE YEARS. ONE SPECIAL MEASURE - THE EXTENSION OF UNEMPLOYMENT PAY FROM 26 WEEKS TO A MINIMUM OF 39 WEEKS - IS ITSELF A PAINFUL REMINDER THAT UNEMPLOYMENT IS AT A POSTWAR RECORD OF NEARLY 10 PERCENT.

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5. THE PASSAGE OF THE TAX BILL IS BEING BRAVELY PRESENTED BY ADMINISTRATION SPOKESMEN AS ANOTHER VICTORY FOR MR REAGAN. AND IN TERMS OF HIS PERSISTENCE AND POWERS OF PERSUASION ON THE HILL, SO IT IS. BUT THE PRESIDENT HIMSELF HAS SCARCELY CONCEALED THAT THE TAX BILL REPRESENTED A VERY PAINFUL DECISION FOR HIM AND IT MUST BE A DISAPPOINTING SEQUEL TO HIS SUCCESS A YEAR AGO IN SECURING THE ADOPTION OF HIS BUDGET. THIS YEAR, FEW NEED REMINDING THAT THE TAX BILL WILL MAKE AT BEST A SMALL DENT IN THE FEDERAL BUDGET DEFICIT WHICH IS STILL EXPECTED TO AMOUNT TO SOME DOLLARS 115 BILLION IN FY 1983 ALONE.

6. THIS WEEK'S STOCK EXCHANGE BOOM HAS BROUGHT A LITTLE CHEER. BUT IT IS WIDELY RECOGNISED THAT THE MAIN UNDER-LYING CAUSE FOR THE FALL IN INTEREST RATES WHICH BROUGHT ON THE BOOM IS THE FACT THAT THERE IS NO LONGER ANY EARLY PROSPECT OF THE ECONOMY PICKING UP SIGNIFICANTLY.

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