

CSR

CONFIDENTIAL

GRS 1000

CONFIDENTIAL [CULL]

DESKBY 310200Z

FM WASHINGTON 310600Z JAN 83

TO IMMEDIATE F C O

TELEGRAM NUMBER 240 OF 31 JANUARY

AND TO ROUTINE PARIS, BONN, TOKYO, UKREP BRUSSELS, UKDEL NATO.

UNITED STATES: BUDGET FOR FY84

1. PRESIDENT REAGAN WILL PRESENT HIS FY84 BUDGET TO THE CONGRESS ON JANUARY 31. WE HAVE OBTAINED A COPY OF HIS PROPOSALS IN ADVANCE. THESE ARE EMBARGOED UNTIL NOON LOCAL TIME AND SHOULD NOT BE MADE PUBLIC BEFORE THEN. PROJECTIONS FOR THE BUDGET TOTALS AND THE DEFICIT UNTIL FY88 ARE AS FOLLOWS:-

	FY83	FY84	FY85	FY86	FY88
	(BILLIONS OF DOLLARS)				
RECEIPTS	598	660	724	842	1010
RECEIPTS/GNP (PERCENT)	18.7	18.9	19.0	20.3	N.A.
OUTLAYS	805	849	918	990	1127
OUTLAYS/GNP (PERCENT)	25.2	24.3	24.1	23.9	N.A.
DEFICIT	207	189	194	148	117
DEFICIT/GNP (PERCENT)	6.5	5.4	5.1	3.6	N.A.

2. THE BUDGET DOCUMENTS ESTIMATE THAT ABOUT 69 PERCENT OF THE UNCORRECTED BUDGET DEFICIT IN FY 83 IS STRUCTURAL AS DISTINCT FROM CYCLICAL, WHEREAS BY FY86 THIS INCREASES TO 85 PERCENT AND TO 97 PERCENT BY FY88.

3. THE MAIN OUTLINE OF THE BUDGET ECONOMIC FORECAST IS FOR SOME RECOVERY IN ECONOMIC ACTIVITY IN THE FIRST HALF OF 1983 WITH GREATER MOMENTUM GATHERING IN THE SECOND HALF. UNEMPLOYMENT IS FORECAST AT ABOVE 10 PERCENT ON AVERAGE IN 1983, WHILE INFLATION IS PUT AT BELOW 5 PERCENT.

4. THE ECONOMIC ASSUMPTIONS ARE AS FOLLOWS:-  
(CALENDAR YEAR)

	1982	1983	1984	1985	1986	1988
NOMINAL GNP (PERCENT INCREASE)	4.1	6.7	9.3	9.1	8.8	8.6
GNP (CONSTANT 1972) DOLLARS (PERCENT INCREASE)	-1.8	1.4	3.9	4.0	4.0	4.0
CONSUMER PRICE INDEX (PERCENT INCREASE)	6.0	4.2	4.6	4.6	4.6	4.4
UNEMPLOYMENT RATE (PERCENT)	9.5	10.7	9.9	8.9	8.1	6.9
INTEREST RATE (91 DAY T.BILL) (PERCENT)	10.7	8.0	7.9	7.4	6.8	6.1

CONFIDENTIAL

/EXPENDITURE

## EXPENDITURE

5. THE MAIN PROPOSALS FOR REDUCTIONS IN CIVIL EXPENDITURE INCLUDE A 6 - MONTH DELAY IN SOCIAL SECURITY COST-OF-LIVING ADJUSTMENTS AS PROPOSED BY THE BIPARTISAN COMMISSION, ITS EXTENSION TO OTHER BENEFIT PROGRAMMES, A ONE-YEAR FREEZE ON OTHER NON-DEFENCE DOMESTIC EXPENDITURE, (INCLUDING THE FEDERAL PAYROLE AND PENSIONS), MEASURES TO CONTROL THE GROWTH OF AUTOMATIC ENTITLEMENT PROGRAMMES, AND HEALTH CARE REFORM. PROVISION FOR DEFENCE INCREASES, IN REAL TERMS THROUGHOUT THE BUDGET PERIOD. REAL DEFENCE OUTLAYS ARE PROJECTED TO INCREASE BY ABOUT 10 PERCENT IN FY84 OVER FY83 AND REAL NON-DEFENCE OUTLAYS TO DECLINE BY ABOUT 3 PERCENT.

## RECEIPTS

6. THE BUDGET PROPOSALS FOR INCREASING RECEIPTS INCLUDE A MAJOR INNOVATION, A CONTINGENCY TAX PLAN IF ECONOMIC GROWTH SUFFICIENT TO LIMIT THE FY86 DEFICIT TO 2 AND ONE HALF PER CENT GNP (AS FORECAST IN JULY 1985) DOES NOT MATERIALISE. THE CONTINGENCY TAXES CONSIST OF A 1 PER CENT SURCHARGE ON THE TAXABLE INCOME OF INDIVIDUALS AND CORPORATIONS AND A 5 DOLLAR PER BARREL EXCISE TAX ON OIL. THE MAIN REVENUE INCREASES ARE AS FOLLOWS:

REVENUE INCREASES	BILLIONS OF DOLLARS		
	FY84	FY85	FY86
BIPARTISAN SOCIAL SECURITY PLAN	8.2	5.8	8.9
CIVIL SERVICE RETIREMENT CONTRIBUTIONS	1.2	2.3	2.1
TAXATION OF HEALTH INSURANCE PREMIUMS	2.3	4.4	6.0
CONTINGENCY TAX PLAN	-	-	4.6
TOTAL	11.2	11.3	61.3

(THERE ARE SOME MINOR REVENUE DECREASES NOT LISTED BUT TAKEN INTO ACCOUNT IN THE TOTAL)

7. THE PRESIDENT CLEARLY HOPES THAT A BIPARTISAN SPIRIT WILL PREVAIL IN CONGRESS SO THAT A COMPROMISE CAN BE REACHED ON THE OVERALL BUDGET SIMILAR TO THE ONE REACHED ON THE SOCIAL SECURITY COMMISSION'S REPORT. BUT THE RECOMMENDATIONS OF THE COMMISSION AND THE OTHER BUDGET PROPOSALS WILL RECEIVE THE USUAL SCRUTINY AND COULD WELL BE ALTERED AS THEY PASS THROUGH THE CONGRESS. IN PARTICULAR, THE DEMOCRATS WILL PROBABLY WISH TO REDUCE PROVISION FOR DEFENCE EXPENDITURE AND INCREASE THAT FOR CIVIL PROGRAMMES, PARTICULARLY FOR THOSE THAT CREATE JOBS.

8. FURTHER COMMENTS ON THE FY84 BUDGET AND AN ASSESSMENT OF CONGRESSIONAL AND OTHER REACTIONS WILL FOLLOW BY SEPARATE TELEGRAM.

9. FCO PLEASE ADVANCE TO PS/LITTLER AND BOTHRILL (TREASURY) AND WATSON (BANK OF ENGLAND).

ADVANCED AS REQUESTED

WRIGHT

FINANCIAL  
NAD

2  
CONFIDENTIAL