

UNCLASSIFIED  
[CULL]FM WASHINGTON 230436Z FEB 84  
TO ROUTINE FCO  
TELEGRAM NUMBER 614 OF 22 FEBRUARY**PRESIDENT'S PRESS CONFERENCE: ECONOMIC ISSUES.**

1. IN HIS FIRST PRESS CONFERENCE OF 1984 THE PRESIDENT WAS CRITICAL OF THE DEMOCRATS FOR THEIR FAILURE TO NEGOTIATE SO FAR ON HIS BIPARTISAN PROPOSAL FOR A DOWN PAYMENT OF DOLLARS 100 BILLION TO LOWER THE BUDGET DEFICIT. HE HAD PROPOSED THE IDEA OF A DOWN PAYMENT IN THE STATE OF THE UNION ADDRESS IN RESPONSE TO CALLS FOR ACTION TO LOWER THE DEFICIT. THE PRESIDENT STATED IT WAS IRONIC THAT THOSE WHO HAD DEMANDED NEGOTIATIONS WERE NOW PROVING RELUCTANT TO ENTER INTO THEM.

2. THE PRESIDENT REPEATED HIS CONCERN OVER THE SIZE OF THE BUDGET DEFICIT AND THE NEED TO LOWER IT. BUT HE HELD OUT LITTLE PROSPECT FOR TAX INCREASES OR REDUCTIONS IN DEFENSE SPENDING BEYOND THOSE PROPOSED IN THE BUDGET FOR FY 1985. HIGHER TAXES WOULD NOT REDUCE THE DEFICIT, BUT MERELY LEAD TO MORE GOVERNMENT SPENDING. THE PRESIDENT STATED THE ADMINISTRATION HAD ALREADY LOWERED THE RATE OF INCREASE OF GOVERNMENT SPENDING, AND MORE COULD BE DONE TO REDUCE SPENDING. BUT ON DEFENCE SPENDING THE PRESIDENT SAID THE ADMINISTRATION'S PROPOSALS WERE REASONABLE, ESPECIALLY IN THE LIGHT OF SEVERAL YEARS DECLINE IN DEFENCE SPENDING PRIOR TO 1980. THE LEVEL OF DEFENCE SPENDING SHOULD REFLECT THE COST OF THOSE MEASURES REQUIRED TO ENSURE NATIONAL SECURITY. ANY PROPOSALS TO LOWER THE RATE OF INCREASE OF DEFENSE SPENDING SHOULD BE CONSIDERED IN THIS LIGHT.

3. ON THE ECONOMY THE PRESIDENT DOUBTED THAT THE SCALE OF BORROWING BY THE FEDERAL GOVERNMENT AND THE PRIVATE SECTOR WOULD THREATEN THE RECOVERY, PARTLY BECAUSE OF THE INCREASE IN COMPANY PROFITABILITY WHICH ENABLED FIRMS TO FINANCE INVESTMENT FROM THEIR OWN SOURCES. HE ACKNOWLEDGED THAT INTEREST RATES REMAINED HIGH. THIS REFLECTED THE MARKETS CONCERN THAT INFLATION MIGHT INCREASE. THE PRESIDENT BELIEVED INTEREST RATES COULD FALL PROVIDING THE ADMINISTRATION REMAINED FIRM IN ITS POLICY OF LOWERING INFLATION. HE SAID THE FEDERAL RESERVE WAS PURSUING A MONETARY POLICY WHICH WAS CONSISTENT WITH A SOUND RECOVERY WITHOUT RAISING INFLATION.

4. FCO PLEASE PASS TO BOTTWELL (HMT), ROLLA (ESID) AND GREEN (BANK).

.WRIGHT  
FINANCIAL  
WAD.**THIS TELEGRAM  
WAS NOT  
ADVANCED**