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TELEGRAM NUMBER 1987 OF 29 JUNE 1981,

INFO SAVING PARIS, BONN, UKREP BRUSSELS AND UKDEL O E C D

RECENT DEVELOPMENTS IN CONGRESS ON REAGAN'S PROPOSED PUBLIC EXPENDITURE REDUCTIONS

1. PRESIDENT REAGAN HAS WON A SERIES OF VOTES IN THE HOUSE OF REPRESENTATIVES WHICH AMOUNT TO A MAJOR VICTORY OVER THE DEMOCRATS AND WHICH PAVE THE WAY FOR THE IMPLEMENTATION, WITH ONLY MINOR MODIFICATIONS, OF ALL HIS PROPOSED EXPENDITURE CUTS FOR FY 82.
2. THE FIRST BUDGET RESOLUTION, ADOPTED BY THE HOUSE ON 20 MAY, SET A TARGET FOR CUTS OF DOLLARS 36 BILLION FOR FY 1982. UNDER THE SO-CALLED RECONCILIATION PROCEDURE, WRITTEN INTO THE FIRST BUDGET RESOLUTION, THE DEMOCRATS WERE LEFT WITH VERY LITTLE FREEDOM OF MANOEUVRE ON THE OVERALL TARGET FOR CUTS BUT THE DEMOCRATICALLY-CONTROLLED COMMITTEES WERE AT LIBERTY TO PROPOSE EXACTLY WHERE THE AXE SHOULD FALL. THE DEMOCRATS USED THIS FREEDOM OF MANOEUVRE TO PUT FORWARD PROPOSALS WHICH, ON CAREFUL EXAMINATION BY STOCKMAN (DIRECTOR OF MANAGEMENT AND BUDGET), PROVED TO BE UNACCEPTABLE TO THE ADMINISTRATION E G SOME PROPOSALS AFFECTING WELFARE PROGRAMMES IMPOSED ONLY TENTATIVE CHANGES AND DID NOT AFFECT LONG-RUN ELIGIBILITY CRITERIA (ESPECIALLY IMPORTANT FOR THE OBJECTIVE OF ELIMINATING THE FEDERAL BUDGET DEFICIT BY VFY 84.) NOR DID THE DEMOCRATIC PROPOSALS GO FAR ENOUGH TO IMPLEMENT THE ADMINISTRATION'S PLANS FOR A SYSTEM OF BLOCK GRANTS TO THE STATES.
3. IN WHAT HAD BECOME A CAT AND MOUSE GAME OVER THE LAST FEW WEEK, THE ADMINISTRATION RESPONDED TO THE DEMOCRATIC CHALLENGE BY PUTTING FORWARD A COMPLETE ALTERNATIVE PACKAGE. THE DEMOCRATS IN TURN, TRIED TO PREVENT A VOTE ON THE PACKAGE AS A WHOLE BY PROPOSING A PROCEDURE REQUIRING SIX SEPARATE VOTES WHICH WOULD HAVE ILLUMINATED

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4. TWENTY-NINE DEMOCRATIC CONGRESSMEN (ALL FROM SOUTHERN STATES) VOTED AGAINST THEIR PARTY WHIP TO SECURE THE ADOPTION OF THE ADMINISTRATION'S ECONOMIC PACKAGE (TWO REPUBLICANS VOTED AGAINST). THE ADMINISTRATION'S SUCCESS IN LOBBYING DEMOCRATS TO VOTE FOR THEM IS LARGELY DUE TO SKILLFUL EXPLOITATION OF THE CONSERVATISM OF SOUTHERN DEMOCRATS, WHO CLEARLY FEEL THAT THEIR ELECTORS ARE ON THE PRESIDENT'S SIDE AND WHO HAVE NOTHING TO FEAR FROM PARTY DISCIPLINE WHICH HAS SO FAR PROVED NON-EXISTENT. THE PRESIDENT HIMSELF PLAYED AN IMPORTANT PART BY TELEPHONING DEMOCRATIC WAIVERERS, URGING THEM TO HOLD THE LINE AND, IN SOME CASES, OFFERING SUPPORT FOR LOCAL PROGRAMMES IN RETURN FOR DEMOCRATIC VOTES.

5. THE PACKAGE CONTAINS ABOUT DOLLARS 38 BILLION IN PROPOSED EXPENDITURE CUTS IN FY82, AND MAKES HUNDRED OF PROPOSALS FOR CHANGES IN EXISTING LAWS. IT NOW GOES TO A CONFERENCE PROCEDURE THAT WILL BRING THE SEPARATE VERSIONS PASSED BY THE HOUSE AND SENATE INTO A SINGLE UNIFIED RECONCILIATION BILL. THIS DOES NOT LOOK LIKE PRESENTING MAJOR DIFFICULTIES FOR THE ADMINISTRATION. FOLLOWING THE 4 JULY RECESS, ATTENTION WILL THEREFORE FOCUS ONCE AGAIN ON REAGAN'S PROPOSED TAX CHANGES.

6. N A D PLEASE PASS COPY TO SIR N HENDERSON.

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FRETWELL