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BY BAG

FM WASHINGTON

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MY TELNO. 2522: UKDEL IMF7/IBRD BIS NEW YORK CONSUL GENS IN U.S.
REPUBLICAN PARTY PLATFORM: DOMESTIC ECONOMIC AND SOCIAL ISSUES

Summary

1. The major themes of the Republican economic platform are the need to sustain the recovery; the desirability of further reducing taxes to increase incentives; and the need to balance the budget through spending cuts and constitutional reform. The fairness of current policies is stressed, but a recurrent theme is the responsibility of individuals and family units to stand on their own feet. A fundamental tenet is that growth, rather than redistribution, will lead to higher living standards for all. The platform gives little encouragement to those who want immediate cuts in the budget deficit.
2. Throughout, emphasis is placed on progress through the upward mobility of individuals as a means to collective prosperity; and on private opportunity rather than public welfare. Much is made of the inefficiencies and wastefulness of excessive social programmes which led under Carter and Mondale to an inflated bureaucracy and the welfare dependency of disadvantaged groups. The heavy costs of Carter-Mondale policies are also said to have led to recession, unemployment, high interest rates and the smothering of enterprise. The Reagan programme, by contrast, is cited as having created 6½ million jobs and as having led to a rapid decline in unemployment; cut inflation dramatically; reduced interest rates; and eased the burden of government paperwork on individuals and businesses.

Detail

The Recovery and Economic Expansion

3. The continuation of economic recovery is seen as the main economic goal. The platform opposes any commitment to increased taxes, which it is alleged, would damage recovery. In addition to policies aimed at the maintenance of incentives to work, the platform contains a commitment to expand incentives to personal saving, including wider coverage of the Individual Retirement Account (including the non-employed). There is also a commitment to work towards the establishment of enterprise zones in both urban and rural locations.

/Taxation

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Taxation Levels and Reform

4. On taxation, credit is taken for the lower tax rates for individuals and businesses contained in the Economic Recovery Tax Act of 1981. In defending the President's record on fairness in taxation (in the light of studies by the Urban Institute and other bodies that indicate a regressive redistribution of income), the platform points out that three-quarters of the reduction in taxes under Reagan has gone to taxpayers earning less than \$50,000, and that these taxpayers now pay a smaller percentage of income than they did in 1980. Credit is also taken for indexation of the tax code (starting in 1985).

5. There is a firm commitment to continuing efforts to lower tax rates and to change and modernise the tax system, eliminating incentive-destroying effects of graduated tax rates. General support is therefore given to tax reforms leading to a fairer and simpler tax system, and specifically to a "modified" flat rate income tax with limited exemptions for items such as mortgage interest. There is also a commitment to restoring the value of personal exemptions and indexing them to prevent further erosion. As part of any reform it is proposed that there would be an employment income exclusion to ensure that tax burdens are not shifted to the poor; and an undertaking is given that tax reform would not be used as a camouflage for tax increases.

The Budget Deficit

6. On the budget there is a "belief" that the Federal budget must be balanced and credit is taken for reductions in the growth of public expenditure. The blame for the deficit is put squarely on Congress; but there is also the rather inconsistent criticism that Congress delayed and scaled down the tax cuts proposed by the President. The theory that deficits are caused by too little taxation is categorically rejected, as are proposals to increase tax in a misguided effort to balance the budget. The fundamental aim is to reduce Federal spending as a percentage of GNP: this objective is seen as being hindered by the Congressional budget process which is described as "bankrupt". The platform favours a constitutional amendment requiring a balanced budget and a line-item Presidential veto over the Federal budget.

/Monetary

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Monetary Policy and Regulatory Reform

7. On monetary policy, the Federal Reserve Board is accused of destabilising actions in the past which devalued the dollar, and mention is made of the need for improved coordination between fiscal and monetary policy. Support is given to the gold standard as a useful mechanism for monetary policies needed to maintain price stability (heedless of the inflationary effects that a gold standard - without sterilisation - would have during a time of massive capital inflow into the United States).

8. On regulatory reform, credit is taken for halving the number of new regulations and for reducing the rate of growth in the regulatory work force - leading to a saving of \$150 bn over the next decade by consumers and businesses. Minimum wage rates are said to be a cause of unemployment, especially youth unemployment.

Social Policy

9. The emphasis in social policy is on excluding welfare recipients who could help themselves; prime responsibility for those who could not is left with individual States and localities. There is however no direct proposal to cut welfare expenditure, nor any new specific proposals on health, although it is implied that continued attempts will be made to reduce the growth of health costs. On education, responsibility is again firmly placed on the States, but support is given to restoring emphasis on basic subjects and to improvements in the standard of teaching through the introduction of merit pay. On pensions, no clear mention is made of the role of Social Security as against private plans, and no major commitments are made. In the civil rights field, there are references to the role of women in society, but no reference to the Equal Rights Amendment or support for the principle of equal pay for work of equal value. Support is given to policies enabling those living in State-owned or subsidised housing to buy their own homes.

10. Labour relations are given only one short paragraph embodying the principle of the right to join or not to join a trade union; the political activities of trade unions are attacked in general terms. The section in immigration makes a gesture towards the contribution to society that immigrants make, but emphasises that there is also a need for effective control (by means unspecified).

/Comment

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Comment

11. By far the most controversial and sensitive part of the platform is the section relating to taxes and the commitment not to raise them in order to reduce the budget deficit. This differs from the President's position, which contains the "last resort" escape clause. In practice, whatever the platform, few observers were expecting Administration proposals for tax increases to emerge in the FY86 budget documents when they are published in January. Any proposals for tax increases are likely to emerge during the Congressional budget process next year, either from the Democrats or from fiscally conservative Republicans. Whether or not they would be acceptable to the President would obviously depend on many factors, including the then state of the overall economy, and whether Congress offer reductions in expenditure at the same time. If as seems likely the Democrats retain their House majority, to make any progress with the deficit at all a re-elected Reagan Administration might have to trade tax increases against expenditure reductions, as in the down-payment package for FY85-87, but might well use the views of the radical right as a justification for holding out for a very tough bargain.

12. On tax reform, the support for a modified flat rate income tax probably refers to proposals such as those that have been put forward by Senator Bradley and Congressmen Gephardt and Kemp under which most tax loopholes would be eliminated (with the notable exception of mortgage interest relief) in exchange for a much lower non-progressive tax rate (or rates). The platform makes no mention of a sales tax or a VAT. Secretary Regan has recently said, however, that these two latter types of tax are still under consideration by the US Treasury.

13. The proposed constitutional changes in the Congressional budget process - namely that there should be a constitutional requirement for a balanced budget and that the President should be given a line-item veto - are familiar ones, and unlikely to make much headway. A line-item veto would be a powerful weapon, but only a very conservative or weak Congress would allow it to be effective. Any Congress would try to retain its hard won budget prerogatives; and many Republicans in Congress would (privately) dispute the view that the main obstacle to a lower budget deficit is the Congress rather than the Administration. If Reagan is re-elected the outlook for reducing the budget deficit next year may therefore depend on the usual complicated tug-of-war between the two.

14. FCO please pass to Bottrill (Treasury), Green (Bank) and Rollo (ESID).

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