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a. USA: Foreign Policy  
Part 2

18045

COMMS OFFICE REG NO.....  
D.T.R. 20th DECEMBER 1984 1023HRS.

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FM WASHINGTON 192350Z DEC 84

TO IMMEDIATE FCO

TELEGRAM NUMBER 3807 OF 19 DECEMBER

INFO IMMEDIATE HONG KONG (FOR PRIME MINISTER'S PARTY), PRIORITY  
UKDEL NATO, BONN, PARIS, MODUK, ROUTINE MOSCOW, ROME, TOKYO.

SPEECH BY WEINBERGER ON THE STRATEGIC DEFENCE INITIATIVE (SDI)

1. ON 19 DECEMBER WEINBERGER MADE A MAJOR SPEECH ON SDI TO THE  
FOREIGN PRESS. EXTENSIVE EXTRACTS IN MIFT (NOT TO ALL).

2. THIS IS THE MOST FORCEFUL AND FULLEST PUBLIC EXPOSITION  
SO FAR GIVEN BY A SENIOR MEMBER OF THE ADMINISTRATION OF THE  
RATIONALE BEHIND THE SDI. ITS IMMEDIATE PURPOSE WAS PROBABLY TO  
REFUTE THE ARGUMENTS, RECENTLY PUT FORWARD IN QUOTE FOREIGN AFFAIRS  
UNQUOTE BY MCNAMARA, BUNDY, SMITH AND KENNAN, THAT THE SDI AND  
ARMS CONTROL ARE MUTUALLY EXCLUSIVE. BUT IT IS ALSO CLEARLY DIRECTED  
AT A EUROPEAN AUDIENCE, (SEE, FOR EXAMPLE, HIS DISMISSAL OF THE  
QUOTE (DECOUPLING UNQUOTE ARGUMENT), AS AN INDICATION OF  
THE ADMINISTRATION'S APPROACH TO THE SHULTZ/GRO-MYKO MEETING IN  
GENEVA. WEINBERGER IN EFFECT ENDS UP SAYING IN TERMS THAT THE US,  
IF CONFRONTED BY A SOVIET REFUSAL TO CONTEMPLATE REDUCTIONS IN  
OFFENSIVE SYSTEMS WHILE SDI GOES AHEAD, WOULD NOT BE PREPARED TO  
DROP SDI. (SEE PARA 3 OF MY TEL NO 15 TO PEKING)

3. WEINBERGER IS UNLIKELY TO HAVE SPOKEN AS HE HAS WITHOUT EXPRESS  
PRESIDENTIAL APPROVAL: THE LINE IN THE PRESIDENT'S BRIEFS FOR HIS  
TALKS WITH THE PRIME MINISTER AT CAMP DAVID ON 22 DECEMBER IS  
THEREFORE LIKELY TO BE RATHER SIMILAR.

A: PM'S PARTY  
D: NIL  
deb

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COMMS OFFICE REG NO.....  
D.T.R. 20th DECEMBER 1984 1019HRS.

FM WASHINGTON 192210Z DEC 84

TO PRIORITY FCO

TELEGRAM NUMBER 3803 OF 19 DECEMBER

INFO IMMEDIATE HONG KONG (FOR PRIME MINISTERS PARTY), ROUTINE PARIS,  
BONN, TOKYO, ROME, UKDEL OECD, UKREP BRUSSELS, UKDEL NATO, MODUX  
(FOR DS1 AND DS12)

INFO SAVING CG'S IN USA, UKMIS NEW YORK

THE US ECONOMY, THE FEDERAL BUDGET DEFICIT AND US DEFENCE SPENDING:  
LATEST DEVELOPMENTS

SUMMARY

1. ACCORDING TO A PRELIMINARY ESTIMATE, THE US ECONOMY RESUMED  
SOMEWHAT FASTER GROWTH IN THE FOURTH QUARTER, WHEN THE ANNUALISED  
GROWTH RATE WAS 2.8 PERCENT. US INTEREST RATES ARE NOW FALLING.  
PRESIDENT REAGAN HAS NOW CONSIDERED DEFENCE SECRETARY WEINBERGER'S  
AND BUDGET DIRECTOR STOCKMAN'S ALTERNATIVE PROPOSALS FOR DEFENCE  
CUTS, AND HAS DECIDED IN FAVOUR OF CUTS IN OUTLAYS OF DOLLARS  
8.7 BILLION IN FY86, DOLLARS 9 BN IN FY87 AND DOLLARS 10 BN IN  
FY88, OR ABOUT DOLLARS 28 BILLION IN TOTAL, COMPARED TO THE DOLLARS  
58 BN TOTAL SOUGHT BY STOCKMAN.

DETAIL

2. THE "FLASH" GNP FIGURES (SUBJECT TO REVISION) RELEASED TODAY  
BY THE DEPARTMENT OF COMMERCE INDICATE THAT US ECONOMIC GROWTH  
IN THE FOURTH QUARTER RECOVERED SOMEWHAT TO AN ANNUAL RATE OF  
2.8 PERCENT, FOLLOWING GROWTH (REVISED DOWNWARDS) AT 1.6 PERCENT  
IN THE THIRD QUARTER. THIS WOULD BRING REAL GROWTH IN THE US  
ECONOMY FOR 1984 OVER 1983 TO 6.7 PERCENT. THE EXPECTED GAIN IN  
FOURTH-QUARTER REAL OUTPUT REFLECTS A SUBSTANTIAL INCREASE IN  
FINAL SALES PARTLY OFFSET BY A DECREASE IN BUSINESS INVENTORY  
INVESTMENT.

3. INTEREST RATES ARE DECLINING FURTHER, WITH THE YIELD ON 3-MONTH  
TREASURY BILLS NOW BELOW 8 PERCENT. MANUFACTURERS HANOVER TRUST  
REDUCED ITS PRIME LENDING RATE TO 10 3/4 PERCENT (FROM 11 AND 1/4  
PERCENT) ON 17 DECEMBER. BANKERS TRUST COMPANY FOLLOWED WITH A  
SIMILAR MOVE ON 19 DECEMBER, AND OTHER BANKS ARE EXPECTED TO  
REDUCE THEIR RATES SOON.

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/4. SECRETARY OF.....

4. SECRETARY OF DEFENCE WEINBERGER ANNOUNCED ON 18 DECEMBER 1981 THE ADMINISTRATION HAS NOW DECIDED ON ITS PROPOSALS FOR THE DEFENCE BUDGET, WHICH ARE FOR ABOUT DOLLARS 28 BN IN CUTS OVER THREE YEARS (DOLLARS 8.7 BN IN FY86, DOLLARS 9 BN IN FY87 AND DOLLARS 10 BN IN FY88) RATHER THAN THE DOLLARS 58 BN SOUGHT BY STOCKMAN (DOLLARS 8 BN, DOLLARS 20 BN AND DOLLARS 30 BN). THE ANNOUNCED FIGURES, EXPRESSED AS CUTS FROM FUTURE PROGRAMMES, DISGUISE SUBSTANTIAL INCREASES IN OUTLAYS IN THE THREE YEARS. OUTLAYS ON DEFENCE (IN NOMINAL TERMS) ARE PROPOSED TO BE DOLLARS 277.5 BN, DOLLARS 324.8 BN AND DOLLARS 358.8 BN RESPECTIVELY. IN TERMS OF TOTAL BUDGET AUTHORITY, THE AMOUNTS PROPOSED ARE DOLLARS 313.7 BILLION, DOLLARS 362.6 BILLION, AND DOLLARS 411.5 BILLION, EQUIVALENT TO REAL GROWTH ESTIMATED AT 6.4 PERCENT, 8.1 PERCENT AND 8.8 PERCENT. SENIOR CONGRESSMEN FROM BOTH PARTIES HAVE SAID THAT THE PROPOSED CUTS ARE INADEQUATE. FURTHER CUTS WILL UNDOUBTEDLY BE PROPOSED DURING THE FY86 CONGRESSIONAL BUDGET PROCESS.

COMMENT

5. IT IS POSSIBLE THAT THE ADMINISTRATION'S PROPOSED DEFENCE SAVINGS HAVE BEEN DELIBERATELY TARGETED ON THE LOW SIDE TO LEAVE ROOM FOR BARGAINING WITH THE CONGRESS ABOUT FURTHER SAVINGS ON DEFENCE. THE RELATIVELY MODEST DEFENCE TARGETS CONTRAST SHARPLY WITH THE DRACONIAN DOLLARS 34 BN IN CUTS PROPOSED FOR DOMESTIC PROGRAMMES IN FY86. FOR INSTANCE, THE PROPOSALS INCLUDE PROVISION FOR A TOTAL OF 7 PERCENT IN MILITARY PAY INCREASES IN FY85 (FOLLOWED BY A 15-MONTH FREEZE). BUT, AS SENATOR DOMENICI (CHAIRMAN OF THE SENATE BUDGET COMMITTEE) SAID ON 19 DECEMBER, IT IS MUCH TOO EARLY IN THE BUDGET PROCESS TO SAY HOW MUCH REDUCTION IN THE BUDGET DEFICIT WILL BE ACHIEVED THIS YEAR. THIS APPLIES PARTICULARLY TO THE BALANCE BETWEEN DOMESTIC AND DEFENCE EXPENDITURE, WHICH IS USUALLY ONE OF THE FINAL ITEMS TO BE AGREED BETWEEN THE REPUBLICANS AND THE DEMOCRATS IN THE BUDGET NEGOTIATIONS DURING THE SUMMER.

6. FCO PLEASE ADVANCE TO BROADBENT (ECONOMIC ADVISERS, FCO), SHIELDS (TREASURY) AND BREEN (BANK).

A: PM'S PARTY  
D: NIL  
dw