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TO IMMEDIATE FCO

TELEGRAM NUMBER 3552 OF 3 NOVEMBER 1982

INFO PARIS, BONN, UKMIS NEW YORK, UKDEL NATO, MOSCOW, UKREP BRUSSELS.

SAVING TO EC AND NATO POSTS AND CG'S IN USA

MY TELEGRAM 3514 (NOT TO ALL): US MID-TERM ELECTIONS

1. THE PROVISIONAL RESULTS OF YESTERDAY'S MID-TERM ELECTIONS ARE AS FOLLOWS.

SENATE

THE REPUBLICANS LOST TWO SEATS AND WON TWO SEATS TO MAINTAIN CONTROL OF THE SENATE WITH THEIR EXISTING MAJORITY (54:46).

HOUSE OF REPRESENTATIVES

THE DEMOCRATS MADE A NET GAIN OF 26 SEATS. THEIR MAJORITY IN THE NEW CONGRESS WILL BE 103.

GOVERNORSHIPS

THE REPUBLICANS HAVE SUFFERED A NET LOSS OF 7, MOSTLY IN THE MID-WEST.

TURNOUT WAS 39 PER CENT OF ELIGABLE VOTERS IE ONLY ONE PER CENT UP ON 1978.

2. THE REPUBLICANS HAVE DONE MARGINALLY BETTER THAN EXPECTED IN THE SENATE, NARROWLY RETAINING MOST OF THEIR VULNERABLE SEATS. THEIR LOSSES IN THE HOUSE ARE WORSE THAN THE AVERAGE FOR A SECOND YEAR ELECTION BUT WITHIN THE RANGE OF THE REPUBLICAN PARTY'S OWN CALCULATIONS. REPUBLICAN GOVERNORSHIP LOSSES WERE MUCH AS EXPECTED, BUT THE REPUBLICANS ALSO MADE ONE GAIN WHICH WILL BE PARTICULARLY PLEASING TO PRESIDENT REAGAN, NAMELY CALIFORNIA WHERE THE DEMOCRATIC CANDIDATE FOR GOVERNOR (LOS ANGELES MAYOR TOM BRADLEY), SEEMS TO HAVE BEEN DRAGGED DOWN TO DEFEAT BY THE UNPOPULARITY OF OUTGOING GOVERNOR JERRY BROWN, WHO LOST BY A SUBSTANTIAL MARGIN IN HIS SENATE RACE.

3. THE ECONOMY, AND UNEMPLOYMENT IN PARTICULAR, WAS THE MAJOR ISSUE OF THE ELECTION. THE ELECTORATE HAVE MADE CLEAR THEIR DISSATISFACTION WITH THE CURRENT STATE OF AFFAIRS BUT WERE OFFERED NO CLEAR DEMOCRATIC ALTERNATIVE AND DID NOT OPT OVERWHELMINGLY FOR ONE: THEY MAY NOT HAVE LIKED MR REAGAN'S PRESCRIPTION BUT SEEMED UNENTHUSIASTIC ABOUT A RETURN TO THE DEMOCRATIC MIXTURE AS BEFORE. NEVERTHELESS, TRADITIONAL DEMOCRATIC VOTERS, PARTICULARLY BLUE COLLAR WORKERS WHO VOTED FOR MR REAGAN TWO YEARS AGO, HAVE RETURNED TO THE DEMOCRATIC FOLD. ONLY ONE VULNERABLE DEMOCRATIC SENATOR LOST HIS SEAT. MOST OF THOSE TARGETTED BY THE CONSERVATIVE PRESSURE GROUPS, WHICH WERE SO SUCCESSFUL IN UNSEATING DEMOCRATS IN 1980, WERE COMFORTABLY RE-ELECTED. AS

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6. NEVERTHELESS, I DOUBT WHETHER MR REAGAN WILL NOW DECIDE TO VOLUNTEER A CHANGE OF COURSE. THAT IS NOT HIS WAY. HE BELIEVES FIRMLY IN HIS ECONOMIC POLICIES, IN PARTICULAR IN THE BENEFITS OF LOWER DIRECT TAXATION. HE HAS ALSO INDICATED THAT HE IS WEDDED TO THE PRESENT INCREASES IN DEFENCE SPENDING, EVEN AT THE PRICE OF A HIGH BUDGET DEFICIT. HE WILL CONTINUE TO PRESS FOR CUTS IN OTHER AREAS OF GOVERNMENT SPENDING. BUT MR REAGAN INDICATED BY HIS ACCEPTANCE OF THE TAX BILL PUT FORWARD BY THE REPUBLICAN SENATE LEADERSHIP IN THE SUMMER THAT HE IS NOT ONE TO DIE IN THE LAST DITCH IF HE IS CONVINCED THAT SOME MODIFICATION IS NECESSARY - AS CERTAINLY WILL BE THE CASE AGAIN IN RELATION TO NEXT YEAR'S BUDGET DEFICIT (SEE BELOW). EQUALLY, WHILE THE NEW CONGRESS WILL FLEX ITS MUSCLES, THERE IS NO SIGN THAT THE DEMOCRATS WILL PUSH MR REAGAN INTO THE POSITION THAT PRESIDENT FORD FOUND HIMSELF IN IN THE LAST TWO YEARS OF HIS PRESIDENCY, IE HAVING TO GOVERN BY VETO.

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(A) BOTH DEMOCRATS AND REPUBLICANS WILL BE PRESSING THE PRESIDENT TO INTRODUCE A BUDGET IN JANUARY OF NEXT YEAR WHICH, WHILE NOT BALANCED, DOES NOT CONTAIN THE CURRENT PREDICTED DEFICITS OF UP TO 200 BILLION DOLLARS FOR FY84.

(B) THE DEMOCRATS ARE LIKELY TO THREATEN TO TRY TO REPEAL THE THIRD YEAR TAX CUT UNLESS THE PRESIDENT GIVES GROUND ON SOCIAL SPENDING AND REDUCES PROJECTED INCREASES IN DEFENCE SPENDING.

(C) THERE WILL BE A MESSY DRAWN OUT BATTLE, IN PARTICULAR ON THE DEFENCE FRONT. THE SUCCESS OF NUCLEAR FREEZE PROPOSITIONS IN 3 STATES YESTERDAY WILL ENCOURAGE THOSE WHO ARE ALREADY CRITICAL OF PROJECTS SUCH AS THE PROPOSED MX BASING DECISION. THIS SORT OF CONGRESSIONAL PRESSURE IS LIKELY TO HAVE AN INDIRECT EFFECT ON ARMS NEGOTIATIONS WITH THE SOVIET UNION.

9. IN THE END, THE PRESIDENT MAY GIVE SOME GROUND ON DEFENCE SPENDING AND SOCIAL SPENDING, BUT IF COMPROMISE IS TO BE REACHED ON A MEANS TO REDUCE THE BUDGET DEFICIT, IT SEEMS MORE LIKELY TO BE FOUND THROUGH EG INCREASES IN INDIRECT TAXATION, THAN BY EITHER SIDE GIVING WAY ON FUNDAMENTALS.

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THAT DILEMA IS AS FAR AS EVER FROM BEING RESOLVED.

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LUXEMBOURG, ROME, THE HAGUE, ANKARA, OTTAWA, OSLO, LISBON,  
REYKJAVIK.

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REPEATED SAVING AS REQUESTED

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