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Internal Political Situations.
The 1980 Presidential Election Campaign.
The 1984 Presidential Election Campaign.

USA

PE-1
MAY 1979

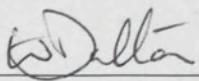
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NEW FILE COVER								
6-11-84		PREM 19/1405						
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Cabinet / Cabinet Committee Documents

Reference	Date
CC (84) 36 th Item 2	08/11/1984
CC (82) 36 th Item 2	01/07/1982
CC (81) 14 th Item 2	02/04/1981
CC (81) 4 th Item 2	29/01/1981
CC (80) 39 th Item 2	06/11/1980

The documents listed above, which were enclosed on this file, have been removed and destroyed. Such documents are the responsibility of the Cabinet Office. When released they are available in the appropriate CAB (CABINET OFFICE) CLASSES

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Foreign and Commonwealth Office document

Reference Diplomatic Report No. 3/81

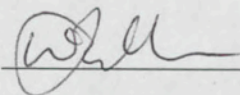
Description United States: Annual Review for 1980

Date 31 December 1980

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Date

4/10/2013

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● PART ONE ends:-

FCO to CDP 7.11.84

PART Two begins:-

WASHINGTON TEL. 181
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CPE
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Foreign and Commonwealth Office

London SW1A 2AH

CDP 12/12

7 November 1984

Prime Minister
I suggest that you
read the summary
and paragraph 4 (which
deals with likely
appointments)
now.

Dear Charles,

The Next US Administration

The Prime Minister may be interested to read
Sir Oliver Wright's assessment of the likely policies
of the next US Administration.

I am also copying this letter and the despatch to
the Private Secretary to the Chancellor of the Exchequer,
the Secretary of State for Defence and the Minister for
Trade.

Then
look at
the whole
despatch
over the
week-end.

Yours ever,

Len Appleyard

CDP
7/xi

(L V Appleyard)
Private Secretary

C D Powell Esq
10 Downing Street



SUMMARY

1984 US PRESIDENTIAL ELECTION RESULT: WHAT WILL REAGAN DO?

1. The scale of his personal triumph gives President Reagan, at least temporarily, a fairly free hand. But the prospect is for more continuity than change in US policy (paragraphs 1 - 6).

2. In economic policy, firm action to reduce the Federal deficit is unlikely, and a break in market confidence on the cards, though the President may be given the benefit of the doubt for some time. The policy question for us is whether to settle for enjoying the American boom while it lasts, or, while recognising that it will be an uphill task, to revert to the private advocacy of tighter fiscal policies (paragraphs 7 - 15).

3. In the trade field, protectionist pressures are bound to grow, and in agriculture as well as industry. The key issue for us is whether the EC's response can be made sufficiently imaginative. The issue of extra-territoriality will not go away (paragraphs 16 - 20).

4. The Reagan Administration will remain anti-Aid, and on Debt "fortiter in re, suaviter in modo". We may wish to argue the Aid case here; we must certainly avoid being manoeuvred into appearing tougher, and less suave, on debtors (paragraphs 21 - 25).



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5. On East/West relations, we have already been seeing Reagan Mark II, and, provided Shultz stays, the quest for an improved Super-Power dialogue is likely to continue. Some chance of an interim arms control agreement, covering both offensive and defensive systems (paragraphs 26 - 30).

6. But Reagan Mark II will be no less tough on Soviet expansionism than was Reagan Mark I. The US will remain firmly committed to the Alliance (though we have not heard the last of burdensharing), to the support of Israel, to close ties with Japan, and to preserving the threatened US hegemony in Central America. Nicaragua remains top of the list of potential trouble spots; and the impotence of the West against world-wide terrorism a central concern. We must maintain the Anglo-American dialogue on all subjects. Your invitation to Shultz is most timely (paragraphs 31 - 36).

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BRITISH EMBASSY,
WASHINGTON, D. C.
TELEPHONE: (202) 462-1340

FROM THE AMBASSADOR

6 November 1984

The Right Honourable
Sir Geoffrey Howe QC MP
Secretary of State for Foreign
and Commonwealth Affairs
Foreign and Commonwealth Office
London SW1

Sir,

1984 US PRESIDENTIAL ELECTION RESULT: WHAT WILL REAGAN DO?

1. It was certainly a famous victory: the question is how Ronald Reagan will use it.

2. He has a remarkably free hand, for the result was a resounding vote of confidence, not for the Republican Party, or even for the policies of the first Reagan Administration, but for Reagan the man. Of course the separation of powers means that Congress can, and no doubt will, hedge him in. The 1986 Congressional elections, where far more Republican than Democrat seats will be vulnerable, will cast a long shadow, almost certainly tying him down still further in the second half of his term. And Reagan, prevented by the 22nd Amendment from running again, will be a lame duck well before

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November 1988, even if his health holds out. But this is his moment, and to a considerable extent he can use it as he wishes. There is a "window of opportunity" in 1985.

3. Will he therefore continue with the policies of the last four years, or shall we see something new? In this despatch I address what are for us the four key areas of policy - the domestic economy, international trade, the problems of the developing world, and foreign (and particularly East/West) policies - and assess the prospects. My best overall guess is that we shall see more continuity than change.

4. Partly, this is, I believe, because Reagan genuinely believes - and with some reason, - that America is stronger today than it was in 1980, and because of his policies. The extraordinary upsurge of patriotism over the Olympics, though skillfully exploited by the Republicans, was genuine enough; and it appealed to Reagan for the very reasons that he appeals to Americans. Partly it is because I doubt if he has himself focussed on the economic dangers underlying the present boom, and its proximate cause, the budget deficit, or is likely to do so until events so compel him. He is older as his second term starts than any previous President was on leaving Office, and his reluctance to grapple with new ideas, or master and retain detail, seems bound to grow. And partly it is because I judge that he feels comfortable with the team around him, and will make few Cabinet changes. Shultz and Regan, probably the two key Cabinet

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Secretaries, and Meese and Clark, the Californian praetorians, seem certain to stay on, at least for the present; Baker, the key White House adviser, seems likely to move up rather than out of government; and only Donovan (Labour) and French-Smith (Attorney General) seem very likely to go, though a question-mark hangs over Weinberger. It will remain a Cabinet of good team players, with few in-house critics. And criticism from the Party is more likely to come from the far-Right than from those Centrists who expressed doubts about the policies of the Mark I Administration.

5. In some ways, this is good news for us. Reagan has been, and will remain, a staunch defender of the overall Western interest vis-a-vis the East; but continuity in East/West relations as such will now mean a continuing search for improved dialogue with Moscow. For the Reagan of 1984 is already distinctly different from the Reagan of 1981, in playing up the need to improve the atmosphere, and the content, of the super-power dialogue. Cynics impute merely electoral motives: I do not; and in the concluding section of this despatch I risk a guess at what this particular form of continuity might mean in concrete terms. Having devoted his first term to making America strong, he will wish to devote the second to promoting peace, democracy and prosperity.



6. But on the central issue of economic policy, which arguably dwarfs all others in importance, it is perhaps rather bad news; for continuity means only half-hearted efforts to control the federal deficit, a risk that the boom will end with a bang, and continuing high US interest rates and an over-mighty dollar. And it is to this issue that I turn first.

US ECONOMIC POLICY

7. Reagan has ridden back to the White House on a surging US economic recovery. In the short-term growth is expected to continue at a still satisfactory rate, and the outlook for inflation continues to be good. But there are many even here who are alarmed about the high level of real interest rates, which is beginning to penalise some sectors of the economy (eg housing), about the strength of the dollar, which is penalising some farmers and large parts of industry, about the soundness of parts of the financial system, and about the sustainability of an economic policy dependent on the richest country in the world sucking in capital to finance a current account deficit running at over \$100 billion each year.

8. The financial markets believe that a reduction in the budget deficit is the key to the solution of these problems; and an Administration that believes in the magic of the markets cannot therefore deny for ever the link between the deficit and the level of interest rates. Nor can an Administration that preaches



sound finance for ever remain unconcerned about huge additions to public debt. The authoritative Congressional Budget Office (CBO) suggests that some \$1,460 billion in new public debt will, on current trends, be added between January 1984 and the end of 1989 to the end-1983 outstanding stock of public debt of \$1,142 billion, and that net interest payments will take 21% of tax revenues by 1989.

9. But private concern about the budget deficit is one thing: public action is another.

10. Current - and probably temporary - good news on the economy, especially the decline in interest rates, will not impress upon the President or Congress any urgency for deficit reduction. The dire forecasts of the pundits have still not come to pass; and Treasury Secretary Regan may go on cheerfully saying "So far, so good", like the man who fell off the Empire State Building, and enjoyed much of the trip down. The Republican Right will continue to believe, as an act of faith, that buoyant growth and lower interest rates will validate the Administration's forecast for the 1989 deficit of \$140 billion, and invalidate the CBO's estimate of \$263 billion.

11. In any event action to reduce the deficit raises decisions of considerable political difficulty. All the "easy" expenditure cuts have been made, and the new Congress will not be much more



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willing than the old one to deliver new cuts. The Office of Management and Budget, who should be wielding the axe, and did so with some effect in 1981, now have only a minor technical role. And the pressures of the campaign forced the President into promises, for example on social security, which will not help him to find savings.

12. So scope for early and substantial expenditure reductions, for announcement in the State of the Union Address and the 1986 Budget, looks strictly limited, unless the President is willing to strike out in bold new directions. Medicare, Medicaid, cost of living pensions adjustments, farm support, and some defence programmes, are the obvious candidates. But the political problems are no less obvious.

13. Nor will the President readily swallow his campaign pledges to avoid tax increases except as a last resort. (Towards the end of the campaign he was inclined to drop the "last resort" formula when out on the hustings and away from cautious Washington advisers: instead he spoke of increases being "over my dead body".) Certainly there may be proposals for revenue-neutral tax reform, with a reduction in tax rates offset by limitations of some of the more blatant tax breaks. Various "flat tax" approaches already have bipartisan support in Congress, but the Administration will need clever footwork if they are to avoid becoming hooked on a lower tax rate before securing agreement to the

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to the closing of the loopholes. The appointment of Senator Packwood to the Chairmanship of the key Senate Taxation Committee would make the task harder.

14. So, the immediate prospect is for talk about tax reform and expenditure cuts, but precious little real action on the deficit. If the financial markets remain sure that the necessary action will follow in due course, confidence may hold. And they may give the President the benefit of the doubt for some time. But if the markets come to believe that only the pressure of events will force the necessary political compromises, then the dire warnings of the pundits may at last come to pass. When is anyone's guess. One possibility being canvassed here is a bi-partisan commission on the deficit. We shall see.

15. America's friends, who have played down their concern about the deficit at and since the London Summit, may face a choice. Should they, while privately recognising the risks, tacitly accept the White House line - now lent some support by Larosiere - that the US is playing its proper role as the motor of world recovery; that the US trade deficit provides golden opportunities for British and other exporters; and that the benefits to the debtor nations of the US recovery exceed the disbenefits of high US interest rates; and thank God for that? Or should they now revert to the line taken up to and at the



1983 Williamsburg Summit, and seek to persuade the President that Volcker is right, and Regan wrong, and that for 1985 and after the health of the world economy requires a better balance between US fiscal and monetary policies? If we adopt the latter strategy, the domestic background here strongly suggests that private consultation will be more productive than public ful-
mination.

US TRADE POLICY

16. US trade policy during the first Reagan Administration was inevitably dominated first by the depth of the 1981-82 recession, and then by the dramatic surge in the value of the dollar. Although most US industries rapidly recovered, many of those heavily involved in or exposed to international trade, - but not those in high technology which seem impervious to the strength of the dollar, - inevitably suffered. While an over-valued dollar, and the consequences of the debt crisis in some of their major traditional markets, meant that US exporters struggled, importers had a field day. In the last three months before the election, imports of manufactured goods grew at an annual rate of some 78%; and the US trade balance for the first nine months of 1984 was in deficit to the tune of \$100 billion. Protectionist pressures, particularly on steel and textiles, have mounted, while public confidence in the virtues of a liberal multilateral trading system has declined. This will continue, for industry and Congress will find it easier to blame foreigners than a popular President.

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17. The President has tried, and will I believe continue to try, to hold the line. The 1984 Trade Bill was not a bad one. Where he felt forced to take protectionist action (as in the case of his decision in September to grant greater relief for the steel industry) he cloaked the decision in the language of free trade. Where he took steps to liberalise trade (by pressing Congress for renewal of the US GSP and for authority to negotiate a free trade agreement with Israel) he made judicious but limited concessions to the proponents of tougher trade laws. But he is bound to be sensitive to the size of the US trade deficit. If domestic demand tapers off in 1985, the business community's commitment to free trade will lessen. The Administration will come under pressure to throw the existing law-book at "unfairly" traded imports, and to force open foreign markets, if necessary by exploiting the new reciprocity powers in the 1984 Trade and Tariffs Act.

18. The litmus test will be the Administration's approach to GATT. The President reaffirmed his commitment to a new GATT round in his IMF speech only two months ago. In theory, he is now in a strong position to extract from Congress negotiating authority for the concessions the US must itself make if it is to secure the removal of foreign barriers to US exports of services, agricultural products and high technology. In practice, it is by no means certain that the new Administration will take the risk, or that the Congress will grant him the



authority to offer quids pro quo. There may well be a temptation instead to seek further trading opportunities through new bilateral arrangements. This is not to say that the 99th Congress is more likely than its predecessors to pass protectionist legislation. Consumer groups have recently shown an encouraging willingness to lobby against, or challenge in the courts, measures which affect their interests; and the press, for the most part, is still anti-protectionist. Much will depend on the approach of America's main trading partners, the European Community and Japan, and whether all three can find a way of opening up the markets of the newly industrialised countries. One thing is clear. A grudging and defensive EC approach to further multilateral trade negotiations, including agriculture, would play into the hands of the protectionist forces here.

19. Moreover the new Congressional focus of attention in the trade field, in 1985 at least, is likely to be agriculture, for Congress is obliged to pass a Farm Bill renewing or modifying existing support arrangements. It is still far from clear how that will turn out. While the rapid increase in Federal expenditure on agriculture in the last four years has attracted much criticism, high real interest rates mean that many farmers, particularly in the mid-West, now face debts they cannot service, declining land values and poor export prospects. The temptation to find a scapegoat makes the EC vulnerable to criticism. As a

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result, the Congressional debate will deal not only with domestic farm support programmes, but also with how to restore export competitiveness. There will be strong pressure for a major programme of new export subsidies to win back markets "lost" to the EC; and the Administration may find - or declare - it irresistible, particularly if support prices have to be cut.

20. Bilateral Anglo-American trade policy discussion will in any case remain bumpy, not least because there will continue to be attempts to enforce a wide definition of US jurisdiction beyond US shores. The gas pipeline crisis, and the current row over attempts to apply US anti-trust laws to bilateral air services, will not be the end of the story. We shall need to continue to combine vigorous and vigilant defence of UK interests with willingness to work out practical solutions. It is difficult to reconcile opposing principles; it may be possible to work out pragmatic answers.

US THIRD WORLD POLICIES

21. The area of Reagan external policy where Mondale's criticisms were perhaps most justified was in relation to the Third World. But this was also the area of least interest to US public opinion. The attack cut no ice, and the policies seem unlikely to change.



22. Overseas aid policy will probably continue to be fashioned largely by Congressional pressures. And if a real attack on the deficit develops, US Aid, already low by European standards, will probably fall further. The Administration are likely to increase the emphasis placed on bilateral, rather than multi-lateral programmes, and on strategic, rather than development concerns. Israel, Egypt, and Central America will continue to absorb the bulk of the funds. And we may expect a continuing firm line on the International Fund for Agricultural Development (IFAD), and a reluctance to move quickly to a major capital increase for the International Bank for Reconstruction and Development (IBRD), or to provide new funding for the International Development Association (IDA).

23. Conceivably, the harshness of the Administration's anti-Third World rhetoric may be muted in the second term. And conceivably a President looking not for re-election but to his place in the history books may be more prepared to take on a Congress and public still hostile to Aid. There is a task for diplomacy here, pointing out that economic stagnation and social deprivation are the most fertile ground for Communist subversion, but it will remain an uphill task.



24. On debt the problem is rather different. Global solutions to the international debt problem will continue to find few supporters here. The Administration will certainly go on sharing our view that the salvation of countries in trouble lies in the pursuit of sustainable non-inflationary growth through sound monetary and fiscal policies, competitive exchange rates, and the opening up of economies to market forces, and in particular to private direct investment flows. That is what US spokesmen will continue to say.

25. But what America will do is another question. They will have a continuing solicitude for the larger debtor countries - Argentina, Brazil and Mexico - where a "default" could affect the American banking system. Where they see a direct US strategic interest they will be ready to give a particular debtor special treatment, including favourable credit and grants, and the exercise of discreet US pressure on the International Monetary Fund. We will need to be alive to the risk that, by practising alone what we both preach, the UK might be manoeuvred into appearing tougher on friendly debtors than is the US.

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US FOREIGN POLICY

26. The Reagan Administration of 1981, reflecting the deeply anti-Communist attitudes of middle America, began by viewing all issues through an East/West prism. It was convinced that its main task was to reverse the West's decline: it saw the democracies threatened by psychological defensiveness, deceived by detente into ignoring the threat of Soviet expansionism, militarily weakened, and economically corroded by inflation. Real dialogue with the Soviet Union, though much talked about even at the outset, was only seriously attempted quite recently. There were no summits, no major agreements with the Soviet Union, and tidal waves of hostile rhetoric ensured that at times there was barely any civil communication at all.

27. The Reagan of 1984 has persuaded America that his primary objectives have been achieved. With the good fortune of like-minded governments in Europe, the Alliance has held together. INF is being deployed. The word from the bridge is that there have been no Soviet advances, as in Afghanistan, on Reagan's watch; and the Grenada success has made Americans feel safer. He has drawn the sting of the American peace and freeze movements, and lifted American eyes from the gloomy introspection of the 1970s. Mondale fairly questioned whether these achievements and this approach was



enough to solve complex problems in the Third World, or make the world safer. What about the risks of an arms race in outer space, or of involvement in Central America? But the inability of the Democrats to score points off Reagan on foreign policy demonstrated the remarkable public confidence he enjoys. America genuinely feels stronger and more confident. It is this psychological change which leads me to believe that better East/West relations may now be possible.

28. The Administration's underlying attitude to the Soviet Union will not change. As Shultz said in his recent speech in Los Angeles, there are no illusions about the repressive Soviet system and the incompatibility of aims and values between the super-powers. Nonetheless, there has been a clear evolution in the Administration's policy, brought about not only by the electoral campaign, but also by learning from past mistakes, talking to allies, and, above all, feeling stronger. The motto is still "peace through strength", but there is now more emphasis on patience, quiet diplomacy, and the search for common ground. I have no doubt that the message which the President gave to Gromyko in September will be reiterated in the next few days, and that openings for progress will be sought. There will also be pressure from within and without the Administration to try for a Summit Meeting quite soon. And I believe that the President, feeling that he has recouped American strength, now wants to go down in history in his second term as a man of peace.

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29. Whether he can is another question. It takes two to tango. It will depend on how the Soviet Union chooses to behave - another KAL disaster would kill the momentum of the moment - and on whether the Kremlin leadership are capable of responding to American initiatives, and doing business with a man they must cordially loathe. No less important will be the cohesiveness of the team he appoints: internecine bickering here can produce paralysis, or agreement only on negotiating positions so extreme as to be unnegotiable. Some strengthening of the NSC staff at senior levels, and some personnel changes in the Pentagon, may be needed.

30. But the biggest immediate problem is how the two sides can translate public rhetoric about the need for arms control negotiations into practical agreement to sit down and negotiate. In his UN General Assembly speech the President talked of a possible "umbrella" which would spread over the whole arms control process: this might permit some re-ordering of the existing negotiating furniture and thus a finessing of entrenched positions. The question is where the Russians will see an interest in negotiating. I believe that the faint outline of a deal is just discernible. It would involve trading the US desire to constrain the proliferation of Soviet offensive nuclear systems against the Soviet desire to constrain US developments in space and defensive systems. There are obvious difficulties, including that for the President

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of having to decide whether to accept some constraint on his cherished Strategic Defence Initiative, but an interim agreement, which might avoid these problems by involving only a temporary moratorium on the testing of ASAT systems, matched by interim constraints on strategic nuclear systems, could conceivably take rather rapid shape in 1985. Other arms control issues, including chemical weapons and MBFR, remain intrinsically intractable; it will be hard to generate major movement on either.

31. Nor will the Administration have any truck with arguments for appeasing the Russians in other areas - Europe, Asia, the Middle East or Central America - in the hope that this might help secure arms control agreements. On the contrary. The President will remain wholly committed to Europe's defence, and the maintenance of the Alliance. Indeed, the new Administration will now see the arrival of a new NATO Secretary General and the dawning of the post-INF era as an excellent opportunity to press for the strengthening of the Alliance's conventional defences. And Congressional pressures for greater European efforts will grow. While real rates of increase in the US defence budget will certainly be slower during the second Reagan term, it seems unlikely that they will fall below 3%. Institutional innovations, such as the strengthening of WEU, are no substitute in US eyes for improved defence effort on the ground. The US will support efforts to give NATO 'more bang for each buck'; but they will not see this as an argument for fewer bucks.



32. Talk of the US turning its back on Europe has been greatly exaggerated. Europe is where the main Soviet threat lies and the main focus of American interest. But the interest in Asia of an Administration with its roots in California will remain real. Troubles in the Philippines, or greater instability in the sub-continent (with post-Gandhi sectarian strife, Pakistani nuclear ambitions, Soviet irritation at the Afghan quagmire, and communal trouble in Sri Lanka) could provide major distractions, but the thrust of US policy will be to aim to deny the Pacific to the Russians, by consolidating the recent improvement in relations with China, and by encouraging Japan's emergence as a political actor in the region. We should not react too defensively, though we must be watchful for developments in this policy which might be at our commercial expense. The Americans will continue to try to develop political and defence cooperation within the Summit Seven, not least because it brings in Japan.

33. Denial will also remain the watch word in Central America. Reagan's first objective will still be to ensure that the guerillas in El Salvador are kept at bay, and the Nicaraguans on the defensive. Further US financial support for the Contras seems certain to be an Administration objective, and a Congressional battle-ground, and may well prove a lost cause. But some clandestine encouragement of their activity will probably continue. Congress willing, the White House will go ahead with the massive



Kissinger aid programme to the area. The efforts to bring the Contadora process to meaningful fruition will continue. But the containment versus intervention debate over Nicaragua, described in my despatch of 6 September, has yet to be resolved. Pressure on Nicaragua will continue, and some of it may prove unpalatable to America's allies. If it led to the internal collapse of the Sandinistas, the White House would be delighted. Direct US military involvement will be no more attractive a proposition for a US President looking for his place in history than it was for one seeking re-election. But much more unattractive would be the further spread of communism in America's backyard. The Sandinistas and their friends must be aware that what happens next is largely up to them. Provocations, such as the introduction of MIGs, would attract direct retaliation, and pressure on the President to go all the way. I suspect that the President would reluctantly accept containment, if it works, but that it suits him well enough that he is able to begin his second term in an ambiguous position, with the ball to all intents and purposes in the Nicaraguan court. Meanwhile the threat is seen as a useful deterrent.

34. Policy in the Middle East will continue to be distorted by the relationship with Israel, and the super-power dimension (my despatch of 14 March). Bruised by their experiences in Lebanon, the Administration are increasingly preoccupied with the terrorist threat there and across the world. And if the Shultz doctrine on pre-emptive and retaliatory action becomes Presidential doctrine, -



and it is not yet - difficult foreign policy problems will arise. While President Reagan remains publicly committed to the search for a wider Middle East peace, based on the positions set out in his 1 September 1982 speech, the Americans see no hope at present of re-launching this initiative, given the composition of the Israeli government and continuing disarray on the Arab side. Shultz's strong preference is for low profile diplomatic activity, focussing initially on the generally agreed objective of Israeli withdrawal from Southern Lebanon. The Americans will also try to promote better Egyptian/Israeli relations and to encourage the Israelis to improve the living conditions and economic prospects of Palestinians in the occupied territories.

35. Despite the intractability of these and other regional problems, and regular US offers to Moscow to consult about them, I see no likelihood that the Americans will encourage the Russians to play an active role in their solution. Conversely the pursuit of better relations with Moscow will probably not be seen as a significant constraint on US policies in particular regions: Afghanistan will not be forgotten, and the effort to secure a Southern African settlement which ensures the withdrawal of Cuban forces from Angola will, I believe, continue. Linkage, while recognised recently by Shultz as a fact of life in international relations, will not take precedence over holding the line world-wide against communist encroachment, and pursuing American interests and responsibilities forcefully and forthrightly. And the



confidence to defend those interests on all fronts, while at the same time pursuing a new dialogue with Moscow, is there in abundance.

CONCLUSION

36. In short, I predict little change in domestic and international economic policies; and I foresee further squalls ahead on trade issues. More seriously, I fear that Reagan Mark II will exhibit all Reagan Mark I's reluctance to get to grips with the fundamental problem of the mounting budget deficit, despite all the damage high interest rates and an over-mighty dollar plainly do to the world economy. Continuity of policy on East/West issues may, on the other hand, bring progress on arms control, for Reagan has already changed, and Shultz is setting a climate of opinion very different from that of the extreme Reaganauts on their arrival in Office in 1981. But there will be squalls ahead on foreign policy issues too, with Central America perhaps the most immediate of American preoccupations. Anglo-American relations should lose none of their complexity - and, I would hope, none of their closeness - over the next four years. Your invitation to Shultz to join you at Chevening after the NATO Ministerial Meeting at Brussels could not be more timely: it seems to me to be essential to ensure that we not only share the American objectives for a peaceful, democratic and prosperous world, and recognise their pre-eminent role in achieving it, but are also in agreement about the means to bring it about.

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37. I am sending copies of this despatch to HM Representatives at the UN, NATO and the EC, in NATO and Community Capitals, and at Moscow, New Delhi, Canberra and Tokyo.

I have the honour to be,
Sir,
Your obedient Servant,

A handwritten signature in black ink, appearing to read 'Oliver Wright', with a long, sweeping flourish extending to the right.

Oliver Wright



SUMMARY

THE 1984 US PRESIDENTIAL ELECTION: WHY REAGAN WON

1. The expected personal triumph for Reagan the man; for a Sun Belt against a Rust Belt Presidential ticket; and for conservative rather than liberal policies.

(Paragraphs 1 - 3)

2. But the Democrats fare better in Congressional races, and should not be written off for 1988, provided they too can bring their ethos up to date. (Paragraphs 4 - 6)

3. Mondale's mistakes; efficient White House campaign management; a carping press; but a result that fairly reflects America's mood. (Paragraphs 7 - 9).



BRITISH EMBASSY,
WASHINGTON, D. C.
TELEPHONE: (202) 462-1340

FROM THE AMBASSADOR

7 November 1984

The Right Honourable
Sir Geoffrey Howe QC MP
Secretary of State for Foreign
and Commonwealth Affairs
London SW1

Sir,

THE 1984 US PRESIDENTIAL ELECTION: WHY REAGAN WON

1. The result of the 1984 Presidential Election was as follows: in the popular vote

Reagan 59%

Mondale 41%

This translated into votes in the electoral college as

Reagan 525

Mondale 13 (Minnesota, and the District of Columbia.)

A landslide therefore but not a whitewash. As forecast. Which is why the election, the result of which was never in doubt, seemed boring and interminable. Mondale had been at it since 1981 when he ceased to be Vice-President; the other seven Democratic candidates for the best part of 12 months. The desire to be President of the United States still burns fiercely in American breasts. Mondale, fighting a popular incumbent President presiding over a booming economy and a resurgence of self-confidence and optimism, was on a hiding to nothing. And so it proved.



2. The reasons are obvious. America is at peace abroad and with itself. Americans are feeling good about themselves and about a President in whom they see reflected the virtues that they like to feel they have: self-reliance, belief in family and religion, patriotism. Beirut apart, no foreign policy surprises upset the Republican script. It was a victory of the 3Ps: peace, prosperity and personality. For a man of 73, the oldest President in US history, with no great mastery of detail and without the longest of attention spans, it was by any standards as remarkable an achievement in contemporary politics as one could wish to experience. I suspect it is a "one-off" achievement, since Ronald Reagan is a "one-off" figure, and that in 1988 the United States will revert to more orthodox politics and more ordinary politicians. Charisma cannot be produced to order.

3. In 1984, the power of the man and the power of the moment combined with certain objective characteristics of the American scene to produce the landslide victory. Reagan swam with the tide of those objective characteristics and reaped the reward; Mondale swam against them and paid the penalty. As readers of this column will know, those objective characteristics include a movement of population from the North and East to the West and South and a structural shift in the economy from the smokestack to the high-tech and service industries. This has not only shifted the

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political centre of gravity in America but has also changed its political-ethos. A conservative Reagan (California)-Bush (Texas) ticket was therefore a natural winner; a liberal Mondale (Minnesota)-Ferraro (New York) ticket a natural loser. The West has not only been won, but the Western ethos has won.

4. All this has posed the question of whether we have now witnessed one of those historical, electoral realignments such as happens once a generation in American politics. I believe it does, provided one is clear what one means. The last great shift was Roosevelt's victory in 1932 and the ushering in of the New Deal, which reached both its apogee and the start of its decay in Lyndon Johnson's "Great Society". It was the era of the liberal East Coast establishment based on the Ivy League universities. Nixon's victory in 1968 started the reaction, affirming the virtues of middle America. As America has moved to the sun and to the right, Southern Democrats have switched allegiance to Reagan, thus breaking the old Northern liberal-Southern conservative coalition which elected Democratic Presidents from Roosevelt to Carter. In 1980, Carter took only his home state of Georgia. In 1984 Reagan swept the South as well as the West. The South still remains loyal to the



Democratic Party in Congress (where Southern Democrats still outnumber Republicans by about two to one). But the shift in Presidential voting habits is a trend which may be difficult to reverse: it has received its seal of authenticity from the second Reagan victory.

5. That is not to suggest that the Democrats will for the foreseeable future be excluded from power at federal level. Far from it. We have seen Reagan's landslide, not the Republican Party's - and even the pulling power of a popular President has not swept into the House or Senate a new Republican tide. As we envisaged, his coat-tails proved short. The Democrats have in fact picked up two Senate seats, and lost far fewer in the House than they gained in 1982.

6. But the trend in Presidential voting does suggest that the Democrats will have to demonstrate an ability to learn from their defeat by coming to the correct conclusions about its cause. To regain the Presidency the Democratic Party will have to change its spots and find new leaders with new ideas representative of the America of the present and future. Gary Hart was a harbinger, if not - this time, or perhaps ever - the man. They need not despair. The American system has checks and balances which ensure that, although they are once again excluded from the White House,



they occupy sufficient positions of power and responsibility to give them the necessary experience which could one day lead to the Presidency. They still have 34 out of 50 State Governors. They still control the House of Representatives and are still close - indeed two seats closer - to control of the Senate. There is Democratic talent out there in the sunbelt - Governor Babbitt of Arizona, Mayor Cisneros of San Antonio to name but two. Legitimate political ambition will produce others. Mistakes can be made and those responsible for them swept from office.

7. This time round, Mondale was not only coming from the wrong direction, but made in addition some fundamental mistakes of his own. The first was his choice of running mate. Geraldine Ferraro came from the wrong part of the country, New York, and from the wrong part of the Party, its liberal wing. If the ticket required a woman, Mayor Dianne Feinstein of San Francisco might have been better, geographically and ideologically. And Ferraro failed even to win the support of a majority of New York women, or Catholics, or New Yorkers of Italian descent. Nonetheless, her candidacy marks a breakthrough, as Jack Kennedy marked a breakthrough for Catholics: next time a woman candidate will be just another candidate, and will be judged as such. Mondale's second error was not to evolve a coherent strategy



by operating from a secure base. He travelled tirelessly but, it seemed, inconsequentially. Two further failures. Jesse Jackson may have mobilised some additional black votes, but he certainly also inspired a white backlash, particularly in the South: a probable net loss. Finally, the Unions, Mondale's paymasters, proved to be politically a busted flush.

8. The other losers from the campaign were probably the writing press. If any one person deserves credit for the President's victory apart from the President himself it is without doubt his Deputy Chief of Staff, Mike Deaver, metteur en scene to the White House. He knew his man and ensured that he played to his strengths, informally on television, and avoided his weaknesses, the formal press conference. There was a moment of doubt after the first television debate. It is, of course, a truth universally acknowledged that the television debate gives advantage to the challenger, but the incumbent cannot now refuse without having to answer charges of cowardice. During that debate, Reagan appeared ill at ease, confused and tired. The age and competence issues resurfaced, the writing press had something to seize on and, led by the Wall Street Journal, they seized it. For a few days the President's men looked all at sea; but gradually they regained confidence and composure when it



was seen that the people had not changed their view of their President at the bidding of the media. As James Reston commented in the New York Times: "among the losers in the Presidential election campaign, you will have to include the nosy scribblers of the press. Not since the days of H.L. Mencken have so many reporters written so much or so well on the shortcomings of the President and influenced so few voters". The press were cross at being kept at a distance from the candidate: their response was to paint him 'warts and all', and indeed mainly warts. But the fact is that people have come to prefer the primary source, television, where the candidates can be seen and be seen saying what they want to say, to the secondary source, the writing press, where the candidates' views are filtered and filleted by the political bias or intellectual arrogance of the reporter.

9. The President ran on his record; so the election was as much as anything a popular referendum on the incumbency. It was his last campaign on his own behalf. He will be nearly 74 when he publicly takes the oath on 21 January 1985. What he will do thereafter, at home and abroad, is the subject of a separate despatch. But for the moment he fairly represents America's mood: optimism, self-reliance, patriotism, the ethos of the West. To those of America's friends and allies who find this mood difficult to deal



with, I would say two things. First, our friendly neighbourhood superpower has always been difficult to deal with, and we ought to have learnt how to do so by now. Secondly, since the free world needs American leadership, better a glad, confident America looking to the future, than one beset by Carterian malaise, fixed in the rigidities of the past.

10. I am sending copies of this despatch to HMRR in NATO posts, Moscow, and Tokyo, to the United Nations, the North Atlantic Council and the European Communities, and to HM Consuls-General in the United States.

I have the honour to be,
Sir,
Your obedient Servant,

A handwritten signature in cursive script, appearing to read 'Oliver Wright', with a long horizontal flourish extending to the right.

Oliver Wright

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DESKBY 030900Z

FM WASHINGTON 010220Z DEC 84

TO IMMEDIATE FCO

TELEGRAM NUMBER 3570 OF 30 NOVEMBER

INFO SAVING UKMIS NEW YORK, UKDEL NATO, UKREP EEC AND US CONSULATES
GENERALS.

NY TELNO 3547: SENATE CHANGES

SUMMARY

1. SENATOR DOLE, THE NEW MAJORITY LEADER, IS LIKELY TO BE MORE INDEPENDENT OF THE WHITE HOUSE THAN HIS PREDECESSOR. THE LINE-UP OF COMMITTEE CHAIRMEN LOOKS GOOD FROM OUR POINT OF VIEW.

DETAIL

2. SENATE REPUBLICANS HAVE AGREED THAT THE LINE-UP OF MAJOR OFFICE HOLDERS IN THE SENATE WILL BE AS FOLLOWS (PREVIOUS INCUMBENTS IN BRACKETS):

MAJORITY LEADER	DOLE - KANSAS	(BAKER-TENNESSEE)
MAJORITY WHIP	SIMPSON - WYOMING	(STEVENS-ALASKA)
FOREIGN RELATIONS	LUGAR - INDIANA	(PERCY-ILLINOIS)
ARMED SERVICES	GOLDWATER - ARIZONA	(TOWER-TEXAS)
AGRICULTURE	HELMS - N. CAROLINA	(NO CHANGE)
FINANCE	PACKWOOD - OREGON	(DOLE)
ENERGY	MCCLURE - IDAHO	(NO CHANGE)
COMMERCE	DANFORTH - MISSOURI	(PACKWOOD)
BUDGET	DOMENICHI - N. MEXICO	(NO CHANGE)

3. DOLE'S ELECTION TO THE MAJORITY LEADERSHIP, AT THE FOURTH BALLOT AND AFTER A HARD FOUGHT RACE, HAS PUT A RATHER MORE INDEPENDENTLY MINDED FIGURE THAN THE WHITE HOUSE WOULD HAVE WANTED (AND A MORE SERIOUS POTENTIAL ALTERNATIVE FOCUS OF SUPPORT WITHIN THE REPUBLICAN PARTY) IN THE KEY LIAISON JOB BETWEEN THE ADMINISTRATION AND CONGRESS. DOLE HAS A RECORD OF STANDING UP TO THE ADMINISTRATION, AND ARGUING FOR DEFICIT REDUCTIONS. IN HIS FIRST PUBLIC STATEMENT AFTER HIS ELECTION HE QUALIFIED HIS SUPPORT FOR THE ADMINISTRATION BY SAYING THAT SENATE REPUBLICANS WOULD BACK THE PRESIDENT'S PROGRAMME "WHEN WE CAN". HE IS CLEARLY RESERVING THE RIGHT TO INTERPRET THE INTERESTS OF REPUBLICAN SENATORS IN HIS OWN WAY, BEARING IN MIND THE FACT THAT 22 OF THEM WILL BE FACING RE-ELECTION IN 1986. THE PROSPECTS FOR SMOOTH COOPERATION BETWEEN THE WHITE HOUSE AND THE NEW SENATE LEADERSHIP OVER DEFICIT REDUCTION ISSUES DO NOT THEREFORE LOOK TOO GOOD. NEVERTHELESS DOLE ALREADY APPEARS TO HAVE HAD SOME SUCCESS, IN HIS FIRST FORMAL MEETING WITH THE PRESIDENT AS MAJORITY LEADER, IN INTERESTING THE PRESIDENT IN THE IDEA OF SOME SORT OF OVERALL BUDGET FREEZE.

4. LUGAR, WHO WAS THOUGHT TO HAVE BEEN THE ADMINISTRATION'S PREFERRED CANDIDATE FOR MAJORITY LEADER, IS AN EXCELLENT CHOICE FROM OUR POINT OF VIEW AS CHAIRMAN OF THE FOREIGN RELATIONS COMMITTEE. A FORMER RHODES SCHOLAR AT OXFORD, HE IS SENSIBLE AND WELL INFORMED ABOUT EUROPEAN AND ALLIANCE MATTERS AND WILL BE A

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/ CONGRESSIONAL

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CONGRESSIONAL VOICE IN FAVOUR OF PROGRESS IN ARMS CONTROL NEGOTIATIONS. IT IS OF COURSE A RELIEF THAT WE HAVE BEEN SPARED HELMS IN THIS ROLE. (ALTHOUGH SOME SAY THAT HELMS COULD STILL CHANGE HIS MIND, THE AGREEMENT ABOUT CHAIRMANSHIPS HAS NOW BEEN PUBLICLY ACCEPTED BY BOTH HELMS AND LUGAR AND MUST BE REGARDED AS FIRM).

5. AS CHAIRMAN OF THE ARMED SERVICES COMMITTEE, GOLDWATER WILL STAND FOR A STRONG DEFENCE POSTURE AND CONTINUED INCREASES IN DEFENCE EXPENDITURE. HE MAY NOT BE SUCH A WELL KNOWN FRIEND OF BRITAIN AS WAS HIS PREDECESSOR TOWER, BUT HIS APPOINTMENT IS ON THE WHOLE GOOD NEWS FOR US. IT IS NOT YET CLEAR WHO WILL SUCCEED GOLDWATER ON THE INTELLIGENCE COMMITTEE, BUT THE FRONT RUNNER, DURENBERGER (MINNESOTA), IS A MODERATE LIBERAL WHO HAS MADE CLEAR HIS OPPOSITION TO FURTHER AID TO THE CONTRAS IN NICARAGUA.

6. THE MODERATES IN THE SENATE WILL ALSO HAVE THEIR HAND STRENGTHENED BY THE PROMOTION OF PACKWOOD TO THE CHAIRMANSHIP OF THE FINANCE COMMITTEE (AND THE CONSEQUENT APPOINTMENT OF DANFORTH TO SUCCEED PACKWOOD ON THE COMMERCE COMMITTEE). WE ARE REPORTING SEPARATELY ON THE LIKELY IMPLICATIONS OF THESE TWO MOVES.

7. WHEN LADY YOUNG SEES SENATOR MATHIAS ON 3 DECEMBER (YOUR TELNO 2044: ACTION TAKEN) SHE MAY LIKE TO ASK HIM HOW HE VIEWS THESE SENATE APPOINTMENTS. HE WAS OF COURSE HIMSELF AN OUTSIDE CANDIDATE FOR CHAIRMAN OF THE FOREIGN RELATIONS COMMITTEE. EVEN THOUGH HIS OWN POSITION HAS NOT ADVANCED, HE SHOULD BE WELL SATISFIED WITH THE GENERAL STRENGTHENING OF MODERATE AND CENTRIST OPINION WITHIN THE SENATE.

8. PLEASE PASS ADVANCE COPY TO PS/LADY YOUNG

FCO PASS SAVING TO UKDEL NATO AND UKREP BRUSSELS.

WRIGHT

[ADVANCED AS REQUESTED]

[REPEATED AS REQUESTED]

FCO (PALACE) WHITEHALL

NAD

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10 DOWNING STREET

From the Private Secretary

14 November 1984

I enclose a copy of a personal message to the Prime Minister from President Reagan. The Prime Minister does not wish it to be given any distribution. I should be grateful, therefore, if it could be shown only to the Foreign Secretary, Sir Antony Acland and their most senior colleagues.

You will note that the President welcomes the idea of a Seminar early in 1985 but says that he will not be in California on 22 December, when the Prime Minister will be passing through. On the Prime Minister's instructions, I have subsequently spoken to the American Ambassador to ask him to point out to the White House discreetly that the Prime Minister's return journey takes her not only through California but also through Washington, and that if the President were there or at Camp David it might still be possible for a short meeting to take place on 22 December. Mr. Price has undertaken to do so.

I think it would be helpful if Sir Oliver Wright were to take similar action in Washington. I should be grateful if appropriate instructions could be sent to him, together with a copy of President Reagan's message, strictly for his personal information only.

(C.D. POWELL)

Len Appleyard, Esq.,
Foreign and Commonwealth Office.

u. PM TOURS:
Visit to Peking,
Hong Kong + USA
in December 84.

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SUBJECT
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Ops
and PM TOURS
Visit to
Polenay, Hong Kong
+ WPA
Dec 84

1 copy sent 2
to FCO with
covering letter

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FM THE WHITE HOUSE
TO THE CABINET OFFICE
ZEM

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T190/74

S E C R E T VIA CABINET OFFICE CHANNELS WH09057
NOVEMBER 13, 1984

DEAR MARGARET,

THANK YOU VERY MUCH FOR YOUR GENEROUS AND WARM WORDS IN THE WAKE OF OUR ELECTION. IT WAS AN HONOR AND PRIVILEGE TO RECEIVE SUCH AN ENDORSEMENT FROM THE AMERICAN ELECTORATE. I DARE TO SAY THAT I ALMOST FEEL AS IF I AM IN YOUR ELECTORAL LEAGUE.

I, TOO, LOOK FORWARD TO CONTINUING CLOSEST CONSULTATIONS. INDEED, I PLEDGE TO DO SO. I RECALL THE GREAT UTILITY OF OUR EXCHANGE OF VIEWS AT THE OUTSET OF MY FIRST TERM, AND I LIKE VZRY MUCH THE IDEA OF A SEMINAR ON ARMS CONTROL AND EAST-WEST RELATIONS. I AM ASKING MY STAFF TO CONTACT YOURS TO ARRANGE A MUTUALLY CONVENIENT DATE EARLY IN 1985.

WITH REGARD TO THE POSSIBILITY OF YOUR STOPPING IN CALIFORNIA ON DECEMBER 22, I REGRET THAT MY SCHEDULE IS SUCH THAT I WILL NOT BE THERE UNTIL AFTER CHRISTMAS.

AGAIN, THANK YOU VERY MUCH FOR YOUR THOUGHTFUL MESSAGE. NANCY JOINS ME IN SENDING OUR FONDEST REGARDS TO YOU AND DENIS.

SINCERELY,

RON

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FM WASHINGTON 072240Z NOV 84
TO PRIORITY F C O
TELEGRAM NUMBER 3322 OF 7 NOVEMBER
INFO CG NEW YORK, BIS NEW YORK, NATO POSTS, MOSCOW, DUBLIN, TOKYO
INFO SAVINGS CONSUL GENERALS IN USA

MY TELNO 3309 (NOT TO ALL): US ELECTION RESULTS

SUMMARY

1. A PERSONAL TRIUMPH FOR THE PRESIDENT, WITH THE EXPECTED LANDSLIDE IN THE ELECTORAL COLLEGE, BUT LITTLE SIGNIFICANT CHANGE IN CONGRESS.

DETAIL

2. THE PRESIDENT DEFEATED WALTER MONDALE BY 59 PER CENT - 41 PER CENT IN THE POPULAR VOTE AND BY 525 - 13 IN THE ELECTORAL COLLEGE. MONDALE CARRIED ONLY MINNESOTA (HIS HOME STATE) AND THE DISTRICT OF COLUMBIA. ALTHOUGH THE PRESIDENT'S SHARE OF THE POPULAR VOTE IS LESS THAN NIXON'S IN 1972, AND JOHNSON'S IN 1964, THE SIZE OF HIS ELECTORAL COLLEGE VICTORY IS A RECORD. ONLY LONDON, IN 1936, WON FEWER ELECTORAL VOTES THAN MONDALE (IN A SMALLER COLLEGE).

3. ACCORDING TO EXIT POLLS, THE PRESIDENT WON A MAJORITY AMONG ALL AGE GROUPS, AND MOST SOCIAL AND ETHNIC GROUPS. MANY COMMENTATORS HAVE REMARKED ON THE SCALE OF THE QUOTE WHITE DRIFT UNQUOTE TO THE REPUBLICANS ESPECIALLY IN THE SOUTH. ONLY BLACKS, JEWS AND THE VERY POOR VOTED HEAVILY FOR MONDALE. THE PRESIDENT MADE FURTHER INROADS INTO THE DIMINISHING DEMOCRATIC MAJORITY AMONG TRADE UNION HOUSEHOLDS. FERRARO'S CANDIDACY DOES NOT SEEM TO HAVE HELPED THE DEMOCRATS WITH CATHOLICS OR ETHNIC VOTERS. THE POLLING FIGURES SHOW A SIZEABLE QUOTE GENDER GAP UNQUOTE, BUT EVEN SO 55 PER CENT OF WOMEN VOTED FOR THE PRESIDENT.

4. THE REPUBLICANS RETAIN CONTROL OF THE SENATE BUT WITH A REDUCED MAJORITY, THE DEMOCRATS GAINING IN ILLINOIS (SIMON), IOWA (HARKIN) AND TENNESSEE (GORE), AND LOSING ONLY IN KENTUCKY, FOR A NET GAIN OF TWO. THIS SCORE IS MUCH AS PREDICTED AND IS UNLIKELY SIGNIFICANTLY TO ALTER THE BALANCE OF POWER IN THE UPPER HOUSE, ALTHOUGH THE DEPARTURE OF BAKER AND THE PRESSURE OF REPUBLICAN QUOTE GYPSY MOTHS UNQUOTE LIKE MATHIAS WILL MAKE IT MORE DIFFICULT FOR THE NEW REPUBLICAN LEADERSHIP TO ASSERT PARTY DISCIPLINE. SPECULATION CENTRES ON WHETHER HELMS WILL SEEK TO FILL PERCY'S SHOES AS CHAIRMAN OF THE FOREIGN RELATIONS COMMITTEE. HE IS AT PRESENT CHAIRMAN OF THE AGRICULTURE COMMITTEE. IT IS THE SOURCE OF HIS STRENGTH IN NORTH CAROLINA: HE SAID BEFORE THE ELECTION THAT HE WOULD RETAIN IT: AND HE CAN'T HAVE BOTH. BUT

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HE WILL BE SORELY TEMPTED TO TAKE OVER THE FOREIGN RELATIONS COMMITTEE AND IT WILL BE BAD NEWS IF HE DOES.

5. THE COUNT IS NOT YET COMPLETE IN ALL THE HOUSE OF REPRESENTATIVES RACES, BUT THE NETWORKS ARE PREDICTING A NET REPUBLICAN GAIN OF ABOUT 15 SEATS. THIS IS LESS THAN THE REPUBLICANS HAD HOPED FOR IN THE FINAL STAGE OF THE CAMPAIGN, AND MEANS THAT THEY WILL NOT BE ABLE TO RECREATE THE BIPARTISAN CONSERVATIVE COALITION WHICH PREVAILED IN 1981/2. JAMES BAKER, WHITE HOUSE CHIEF OF STAFF, COMMENTED TODAY THAT ON THE CENTRAL DOMESTIC AND INTERNATIONAL ISSUES THE GOING IN CONGRESS WOULD BE AS, OR MORE, DIFFICULT IN THE SECOND REAGAN TERM.

6. 13 STATE GOVERNORS RACES WERE ALSO DECIDED YESTERDAY. WITH ONE STATE STILL UNDECIDED, THEY SPLIT 8/4 FOR THE REPUBLICANS, A NET GAIN AT PRESENT OF TWO.

7. FOR FULL ASSESSMENTS OF THE RESULTS, AND OF THE PRESIDENT'S PROBABLE POLICIES IN HIS SECOND TERM, SEE MY DESPATCHES OF 6 AND 7 NOVEMBER.

WRIGHT
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NAD

[REPEATED AS REQUESTED]

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10 DOWNING STREET

From the Private Secretary

7 November, 1984.

President Reagan's Re-election

BF I enclose a message of congratulations which the Prime Minister wishes to send to President Reagan. I should be grateful if it could be telegraphed to Washington for very early delivery. We shall be releasing the text here.

I also enclose, strictly for the personal information of the Foreign Secretary and of H.M. Ambassador, Washington, a copy of a further personal message from the Prime Minister to the President which is being despatched on the direct teleprinter link. This will not of course be made public.

Charles Powell

Len Appleyard, Esq.,
Foreign and Commonwealth Office.

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cc Masts.
cc GFS.
cc. PM TOURS: VISIT to
Peking, Hong Kong,
+ USA, Dec. 84

CABWTE 001/07

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FM CABINET OFFICE LONDON
TO THE WHITE HOUSE
BT

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T184/84

SECRET AND STRICTLY PERSONAL
MESSAGE FROM THE PRIME MINISTER
TO THE PRESIDENT OF THE UNITED STATES

DEAR RON,

WHAT A VICTORY EXCLAM. I CANNOT TELL YOU HOW DELIGHTED I AM. IT WILL BE A GREAT TONIC AND REASSURANCE FOR ALL AMERICA'S FRIENDS WHO CAN CONTINUE TO HAVE THE FULLEST CONFIDENCE IN YOUR NATION'S LEADERSHIP. DENIS AND I SEND YOU AND NANCY OUR WARMEST CONGRATULATIONS.

WE ARE NOW BOTH IN A SECOND TERM AND CONFRONT MANY FORMIDABLE CHALLENGES. MY FONDEST HOPE IS THAT WE CAN CONTINUE TO WORK AS CLOSELY TOGETHER AS WE HAVE OVER THE PAST FOUR YEARS, AND CONSULT PRIVATELY AND WITH COMPLETE FRANKNESS ON ALL MAJOR INTERNATIONAL PROBLEMS. WHEN I SAW GEORGE SHULTZ IN DELHI, HE MADE AN INTERESTING SUGGESTION FOR A SMALL SEMINAR BETWEEN US, WITH PARTICULAR ATTENTION TO ARMS CONTROL ISSUES, EARLY IN YOUR NEW ADMINISTRATION. I WOULD CERTAINLY BE READY TO GO ALONG WITH THIS IF YOU DECIDE TO PURSUE IT.

MORE IMMEDIATELY, I SHALL BE IN PEKING ON 20/21 DECEMBER TO SIGN THE HONG KONG AGREEMENT. IF YOU HAPPENED TO BE IN CALIFORNIA THEN, I COULD STOP OVER FOR AN HOUR OR TWO ON 22 DECEMBER ON MY WAY BACK TO LONDON. IT WOULD BE GOOD TO HAVE A TALK.

ONCE AGAIN MY WARMEST CONGRATULATIONS AND BEST WISHES FOR YOUR SECOND TERM.

YOURS EVER,

MARGARET.

BT

NNNN

SENT AT 07/1111Z ERW

PRIME MINISTER

President Reagan's Re-election:
Messages

I suggest that you should send two messages: a formal message of congratulations to be delivered through the Embassy and intended for publication, and a private one to be sent on the hot line. I attach drafts of both.

C.D.P.
Bob Ahmed
Thompson.
mt

6 November 1984

P.S. You will also want to consider telephoning him tomorrow.
C.D.P.

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STRICTLY PERSONAL

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MESSAGE TO PRESIDENT REAGAN FROM THE PRIME MINISTER

DEAR RON,

What a victory! I cannot tell you how delighted I am. It will be a great tonic and reassurance for all America's friends who can continue to have the fullest confidence in your great Nation's leadership. Denis and I send you and Nancy our warmest congratulations.

We are now both in a second term and confront many formidable challenges. My fondest hope is that we can continue to work as closely together as we have over the past four years, and consult privately and with complete frankness on all major international problems. When I saw George Shultz in Delhi, he made an interesting suggestion for a small seminar between us, with particular attention to arms control issues, early in your new administration. I would certainly be ready to go along with this if you decide to pursue it.

More immediately, I shall be in Peking on 20/21 December to sign the Hong Kong agreement. If you happened to be in California then, I could stop over for an hour or two on 22 December on my way back to London. It would be good to have a talk.

Once again my warmest congratulations and best wishes for your second term.

YOURS EVER
MARGARET



7 November 1984

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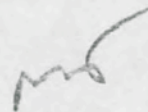
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DRAFT MESSAGE TO PRESIDENT REAGAN FROM THE PRIME MINISTER

I send you warm congratulations on your remarkable election victory. It must be a matter of great satisfaction to you that across the land the American people have given such a strong endorsement both of their confidence in you personally and of the values for which you stand.

Your victory and the future policies of your new Administration also have a significance for many people and nations beyond the shores of the United States, and your re-election comes at an opportune moment in international affairs, when there are prospects for progress on a number of pressing questions. You can count on Britain to work closely with you in meeting the challenges which lie ahead.

A unique degree of consultation and co-operation have been the hallmark of Anglo-US relations for over 40 years and I look forward to maintaining and indeed extending this tradition with your new Administration.



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Foreign and Commonwealth Office

London SW1A 2AH

CM

6 November 1984

Dear Charles,

Message to President Reagan

/ I enclose the draft of a possible message for the Prime Minister to send to President Reagan on the assumption that he is re-elected. We have taken it that the content of the message will remain confidential.

The first paragraph may well require revision in the light of the results of the Congressional elections, since in practice the strength of the President's mandate to pursue the policies in which he believes will depend heavily on the extent to which those sympathetic to his views are returned to Congress. The outlook on this point is far from clear, as is brought out well in Sir Oliver Wright's telegram no 3277 of 3 November (enclosed).

/

Yours ever,

Colin Budd

(C R Budd)
Private Secretary

C D Powell Esq
10 Downing Street

CONFIDENTIAL

DRAFT: minute/letter/teleletter/despatch/note

TYPE: Draft/Final 1+

FROM The Prime Minister

Reference

DEPARTMENT:

TEL. NO:

SECURITY CLASSIFICATION

TO: The Rt Hon Mrs Barbara Castle MEP
Hell Corner Farm
Grays Lane
Ibstone
High Wycombe
BUCKS

Your Reference

Top Secret

Secret

Confidential

Restricted

Unclassified

Copies to:

PRIVACY MARKING

SUBJECT:

.....In Confidence

Thank you for your letter of 29 October about the nomination of Lord Cockfield as one of Britain's European Commissioners.

CAVEAT.....

The two British Commissioners-designate were chosen on the basis that they were people with wide experience, ^{and} ~~with~~ high reputations. Both are wholly suited for the appointments that have been made. I see no case for any other criteria to be used.

Enclosures—flag(s).....

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FM WASHINGTON 270306Z

TO PRIORITY FCO

TELEGRAM NUMBER 3203 OF 26 OCTOBER 1984

SAVING TO NATO AND EC POSTS, USCG'S, BIS NEW YORK.

US CONGRESSIONAL ELECTIONS

SUMMARY

1. THE REPUBLICANS MAY GAIN 5-15 SEATS IN THE HOUSE. BUT THE DEMOCRATS COULD PICK UP A FEW SEATS IN THE SENATE.

DETAIL

2. WITH THE RESULT OF THE PRESIDENTIAL CONTEST NOW INCREASINGLY BEING TAKEN FOR GRANTED, ATTENTION IS FOCUSING MORE ON THE CONGRESSIONAL RACES. ALL 435 HOUSE SEATS AND 33 OF THE 100 SENATE SEATS (19 REPUBLICAN AND 14 DEMOCRATIC) ARE UP FOR ELECTION ON 6 NOVEMBER. THE INCOMING ADMINISTRATION'S ABILITY TO LEGISLATE EFFECTIVELY OVER THE NEXT TWO YEARS WILL DEPEND ON THE OUTCOME AND THE IMPLICATIONS FOR THE BUDGET DEFICIT WILL BE PARTICULARLY IMPORTANT.

3. THE DEMOCRATS IN THE OUTGOING CONGRESS HAD A LARGE ENOUGH MAJORITY IN THE HOUSE (267 TO 168) AND A SUFFICIENTLY CLOSE BALANCE IN THE SENATE (55 REPUBLICAN TO 45 DEMOCRATIC) TO BE ABLE TO FRUSTRATE OR MODIFY ADMINISTRATION POLICIES IN MOST AREAS OF MAJOR PARTISAN DISAGREEMENT. THE UPSHOT WAS STALEMATE ON MANY CONTROVERSIAL ISSUES, AND ON SOME OF THE MOST DIFFICULT OF THEM - EG, AID TO THE CONTRAS IN NICARAGUA AND FUNDING FOR THE MX MISSILE - DECISIONS HAVE SIMPLY BEEN POSTPONED UNTIL THE NEW CONGRESS MEETS NEXT YEAR. THE KEY QUESTIONS IN THE ELECTIONS TO THE NEW CONGRESS WILL BE (A) WHETHER, THE REPUBLICANS CAN, ON REAGAN'S COAT-TAILS, GAIN ENOUGH SEATS IN THE HOUSE TO BREAK THIS STALEMATE AND RE-CREATE A WORKING MAJORITY COALITION WITH CONSERVATIVE SOUTHERN DEMOCRATS, SUCH AS EXISTED IN THE 1981/82 CONGRESS, AND (B) WHETHER THE DEMOCRATS CAN REGAIN CONTROL OF THE SENATE, WHERE SEVERAL REPUBLICAN INCUMBENTS FACE STRONG CHALLENGES FROM GOOD DEMOCRATIC CANDIDATES.

4. FOR THE REPUBLICANS TO BREAK THE STALEMATE IN THE HOUSE, THEY WOULD NEED TO REGAIN AT LEAST THE 26 SEATS WHICH THEY LOST IN THE MID-TERM ELECTIONS IN 1982. THREE WEEKS AGO THIS LOOKED A POSSIBILITY. BUT THE FIRST TELEVISED DEBATE ON 7 OCTOBER, EVEN IF IT DID NOT GREATLY CHANGE THE PRESIDENT'S PERSONAL STANDING IN THE POLLS, SEEMS TO HAVE SIGNIFICANTLY SHORTENED HIS COATTAILS. MONDALE WAS MOREOVER SHOWN TO BE A DEMOCRATIC LEADER WITH A CREDIBLE DOMESTIC PROGRAMME. THIS WAS ENOUGH TO BRING MANY WAVERING DEMOCRATS BACK INTO THE FOLD BEHIND THEIR LOCAL INCUMBENT DEMOCRATIC CONGRESSMAN (EVEN THOUGH THEY MAY STILL INTEND TO VOTE FOR REAGAN FOR PRESIDENT, BECAUSE THEY LIKE HIM AS A MAN.) THE INDICATIONS NOW ARE THAT,

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AS USUAL IN CONGRESSIONAL ELECTIONS, GIVEN THE ENORMOUS ADVANTAGES OF INCUMBENCY, THE GREAT MAJORITY OF INCUMBENTS WILL WIN. SUCH DEMOCRATS WHO DO LOSE ARE MORE LIKELY TO BE FIRST-TERMERS WHO WERE LUCKY TO WIN IN REPUBLICAN AREAS IN 1982, RATHER THAN SENIOR FIGURES SUCH AS THE CHAIRMAN OF THE HOUSE BUDGET COMMITTEE, JIM JONES (OKLAHOMA), WHO WAS AT FIRST THOUGHT TO BE VULNERABLE. THE EXPERTS ARE NOW PREDICTING A SWING TO THE REPUBLICANS IN THE RANGE OF 5 TO 15 SEATS.

5. IN THE SENATE THE MAJOR RACES HAVE GATHERED A MOMENTUM OF THEIR OWN AND ARE BEING FOUGHT OUT WITH MUCH NATIONAL PUBLICITY AND RELATIVELY LITTLE REGARD FOR THE PROGRESS OF THE PRESIDENTIAL CAMPAIGN. THE DEMOCRATS ONLY NEED A NET GAIN OF 6 SEATS TO REGAIN CONTROL OF THE SENATE, AND THERE ARE IN THEORY AT LEAST 6 OR 7 REPUBLICAN SEATS WHICH COULD BE WINNABLE FOR THEM. THEIR MAIN TARGETS AMONG REPUBLICAN INCUMBENTS ARE THE ARCH-CONSERVATIVE SENATOR HELMS (NORTH CAROLINA), WHO IS BEING CHALLENGED BY THE POPULAR STATE GOVERNOR, JIM HUNT, IN WHAT LOOKS LIKE BEING THE MOST EXPENSIVE SENATE RACE IN HISTORY (ABOUT 20 MILLION DOLLARS), AND THE CHAIRMAN OF THE FOREIGN RELATIONS COMMITTEE, SENATOR PERCY (ILLINOIS), WHO FACES A LIBERAL DEMOCRATIC CONGRESSMAN, PAUL SIMON. SUPPORTED BY THE VOICES AND HEFTY FINANCIAL SUPPORT OF THOSE WHO DISAPPROVE OF PERCY'S SUPPOSEDLY PRO-ARAB LEANING. BOTH THESE RACES LOOK EXTREMELY CLOSE, THOUGH THE INCUMBENTS PROBABLY HAVE A SLIGHT EDGE IN BOTH CASES. ONE SEAT WHICH THE DEMOCRATS EXPECT TO WIN IS THAT CURRENTLY HELD BY THE RETIRING MAJORITY LEADER SENATOR BAKER (TENNESSEE). THE REPUBLICANS, HOWEVER, ARE LIKELY TO RETAIN THE SEAT OF THE RETIRING CHAIRMAN OF THE ARMED SERVICES COMMITTEE, SENATOR TOWER (TEXAS), AND COULD ALSO PICK UP A VACANT DEMOCRATIC SEAT IN MASSACHUSETTS (WHERE THEIR CANDIDATE IS THE MILLIONAIRE BUSINESSMAN, RAY SHAMIE, WHO DEFEATED ELLIOT RICHARDSON IN THE REPUBLICAN PRIMARY).

6. IT IS HARD TO MAKE FIRM PREDICTIONS ABOUT THESE SENATE RACES. BUT THE CONVENTIONAL WISDOM, WHICH I THINK IS PROBABLY RIGHT, IS THAT THE DEMOCRATS MAY MAKE SOME SMALL NET GAINS (PERHAPS 2-3 SEATS) THOUGH NOT ENOUGH TO REGAIN CONTROL. POSSIBLY MORE IMPORTANT FROM OUR POINT OF VIEW IS THE QUESTION OF THE MAJOR COMMITTEE CHAIRMANSHIPS. IF PERCY LOSES, THE CONTROVERSIAL HELMS WOULD BE NEXT IN LINE FOR THE CHAIRMANSHIP OF THE FOREIGN RELATIONS COMMITTEE (IF HE CHOSE TO TAKE IT RATHER THAN REMAIN AS CHAIRMAN OF THE AGRICULTURE COMMITTEE). THIS WOULD NOT BE WELCOME TO THE STATE DEPARTMENT. IF BOTH PERCY AND HELMS LOSE, AND THE REPUBLICANS ARE STILL IN CONTROL, POSSIBLE FOREIGN RELATIONS COMMITTEE CHAIRMEN WOULD INCLUDE SENATORS LUGAR AND MATHIAS, WITHER OF WHOM WOULD BE EXCELLENT FROM OUR POINT OF VIEW. THE ARMED SERVICES COMMITTEE CHAIRMANSHIP WILL BE EQUALLY WIDE OPEN AFTER TOWER'S DEPARTURE, WITH SENATORS WARNER (VIRGINIA) AND GOLDWATER (ARIZONA) THE CURRENT FAVOURITES.

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/CONCLUSION

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CONCLUSION

7. EVEN IF AS EXPECTED THERE IS A LANDSLIDE REAGAN VICTORY IN THE PRESIDENTIAL RACE, IT WOULD BE SURPRISING TO SEE ANYTHING MORE THAN A MINOR SWING TO THE REPUBLICANS IN THE HOUSE AND POSSIBLY SOME SMALL GAIN FOR THE DEMOCRATS IN THE SENATE. I WOULD NOT WISH TO BE TOO SPECIFIC IN FORECASTING NUMBERS. BUT IT IS INTERESTING THAT IN 1972, WHEN NIXON WON RE-ELECTION BY A LANDSLIDE OF 520 TO 17 VOTES IN THE ELECTORAL COLLEGE, THE REPUBLICANS GAINED 12 SEATS IN THE HOUSE AND LOST 2 IN THE SENATE.

FCO PASS SAVING TO:-

ANKARA, ATHENS, BRUSSELS, BONN, COPENHAGEN, LISBON, LUXEMBOURG, MADRID, UKDEL STOCKHOLM, DUBLIN, UKREP BRUSSELS, OTTAWA, OSLO, PARIS, ROME, REYKJAVIK, THE HAGUE, UKDEL NATO, UKDEL VIENNA.

WRIGHT

FCO (PALACE) WHITEHALL

NAD.

(REPEATED AS REQUESTED)

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FM WASHINGTON 262206Z OCT 84
TO PRIORITY FCO
TELEGRAM NUMBER 3195 OF 26 OCTOBER

INFO SAVING CGS USA, UKMIS NEW YORK, NATO POSTS, DUBLIN, MOSCOW

MY TELNO 3159: US PRESIDENTIAL CAMPAIGN

SUMMARY

1. LATEST POLLS SHOW PRESIDENT'S LEAD HOLDING FIRM OR EVEN EXPANDING. HE NOW LOOKS TOO FAR AHEAD TO CATCH.

DETAIL

2. THE LATEST OPINION POLLS CONFIRM THAT THE PRESIDENT'S POSITION HAS BEEN MAINTAINED OR STRENGTHENED BY LAST SUNDAY'S TELEVISED DEBATE (MY TUR). THE SURGE IN MONDALE'S SUPPORT AFTER THE FIRST DEBATE HAD ALREADY BEEN HALTED BEFORE THE SECOND. COMMENTATORS ARE AGREED THAT THE PRESIDENT'S COMPOSURE, AND HIS QUIP ABOUT NOT MAKING YOUTH/INEXPERIENCE AN ELECTORAL ISSUE, SEEMS TO HAVE PULLED THE RUG FROM UNDER THE DEMOCRATIC ATTACK ON HIS LEADERSHIP QUALITIES. OPINION POLLS TAKEN IMMEDIATELY AFTER THE DEBATE SHOWED VOTERS SCORING THE CANDIDATES' PERFORMANCE IN IT FAIRLY EVENLY, BUT WITH A SLIGHT EDGE FOR THE PRESIDENT. THE PERCEPTION THAT THE PRESIDENT GAINED FROM THE DEBATE HAS GROWN AS THE WEEK HAS GONE ON, WITH A NEWSWEEK POLL SHOWING HIM SCORING CONSISTENTLY HIGHER MARKS THAN MONDALE ACROSS THE BOARD FOR HIS PERFORMANCE IN HANDLING QUESTIONS ON FOREIGN AND DEFENCE POLICY.

3. A WASHINGTON POST/ABC POLL PUBLISHED ON 25 OCTOBER GIVES THE PRESIDENT A 54%/42% NATIONAL LEAD OVER MONDALE, THE SAME MARGIN AS A WEEK AGO. A HARRIS SURVEY PUBLISHED THE SAME DAY GIVES HIM A 14% LEAD, COMPARED WITH 9% A WEEK AGO. THROUGHOUT THE CAMPAIGN THESE HAVE BEEN THE TWO POLLING ORGANISATIONS REPORTING THE SMALLEST REAGAN LEADS: THAT REMAINS TRUE.

4. THE GEOGRAPHICAL SPREAD OF REAGAN SUPPORT REMAINS STRIKING. MONDALE NOW LEADS ONLY IN MINNESOTA AND THE DISTRICT OF COLUMBIA (13 OUT OF 538 ELECTORAL COLLEGE VOTES). THE RACE IS CLOSE IN THE INDUSTRIAL NORTH EAST, PARTICULARLY NEW YORK, AND IN THE NORTH WEST. BUT ALTHOUGH THE REAGAN LEAD IN CALIFORNIA IS BELOW 10%, THE DEMOCRATIC ADVANCE THERE SEEMS TO HAVE BEEN HALTED. AND THE REST OF THE MID-WEST (APART FROM MINNESOTA AND POSSIBLY WISCONSIN), WHERE BOTH CANDIDATES HAVE BEEN CAMPAIGNING HARD THIS WEEK, NOW LOOKS SECURE FOR THE PRESIDENT.

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5. REPUBLICAN CONFIDENCE, AND DEMOCRAT PESSIMISM, GROWS. JAMES BAKER, WHITE HOUSE CHIEF OF STAFF, HAS COMMENTED THAT MONDALE NOW NEEDS TO TURN A MILLION VOTERS A DAY FOR VICTORY. ALTHOUGH MONDALE'S OVERALL APPROVAL RATING CONTINUES TO SHOW THE IMPROVEMENT NOTED AFTER THE FIRST DEBATE (IT NOW STANDS AT 53 - 44% FAVOURABLE), THE PRESIDENT'S RATING REMAINS SUBSTANTIALLY HIGHER AT 60 - 36% APPROVAL. SOME OF THE REAGAN CAMPAIGN STAFF ARE OPENLY SAYING THAT IT IS ALL OVER BAR THE VOTING. THIS IS OF COURSE A DANGEROUS PREDICTION IN AMERICAN POLITICS, EVEN WITH ONLY TEN DAYS TO GO. BUT, THOUGH THE PRESIDENT IS NOT YET IN THE WINNER'S ENCLOSURE, IT LOOKS MORE AND MORE LIKE A RACING CERTAINTY.

FCO PSE PASS SAVING: ANKARA ATHENS BRUSSELS BONN COPENHAGEN LISBON
LUXEMBOURG MADRID UKDEL STOCKHOLM OTTAWA OSLO PARIS ROME REYKJAVIK
THE HAGUE UKDEL NATO UKDEL VIENNA DUBLIN MOSCOW

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FROM WASHINGTON 230445Z OCT 84.

TO PRIORITY F C O

TELEGRAM NUMBER 3159 OF 22 OCTOBER

INFO SAVING NATO POSTS, USCG'S, BIS NEW YORK, MOSCOW, TOKYO,
DUBLIN, UKREP BRUSSELS.

MY TELNO 3096: THE PRESIDENTIAL CAMPAIGN.

SUMMARY

1. NO KNOCK-OUT BLOW IN THE FINAL PRESIDENTIAL DEBATE. THE PRESIDENT DID WELL ENOUGH TO REMAIN ON COURSE FOR THE FINAL TWO WEEKS.

DETAIL

2. THE SECOND AND FINAL TELEVISED PRESIDENTIAL DEBATE, DEALING WITH FOREIGN AFFAIRS, TOOK PLACE IN KANSAS CITY ON 21 OCTOBER. IT PRODUCED NO GREAT SURPRISES OR UPSETS. THE PRESIDENT WAS IN BETTER FORM THAN IN THE FIRST DEBATE. DESPITE A GAFFE (WHICH HE LATER CORRECTED) ABOUT THE CIA IN NICARAUGUA, AND A SOMEWHAT RAMBLING CLOSING STATEMENT, HE SCORED EFFECTIVELY AGAINST MONDALE OVER THE LATTER'S RECORD ON DEFENCE. HE ALSO NEATLY FINESSED THE AGE ISSUE WITH A CRACK ABOUT MONDALE'S YOUTH AND INEXPERIENCE.

3. MONDALE, FOR HIS PART, ACCUSED THE PRESIDENT OF LACK OF LEADERSHIP AND FAILURE TO MASTER DETAIL, EG OVER CIA ACTIVITIES IN NICARAGUA, OVER THE LEBANON BOMBINGS, AND OVER ARMS CONTROL ISSUES. HIS THEME WAS THAT THE COMMANDER IN CHIEF MUST BE IN COMMAND - OF THE FACTS, AND OF HIS SUBORDINATES. BUT ALTHOUGH MONDALE SCORED SOME GOOD POINTS, THE PRESIDENT DID IN FACT LOOK CONFIDENT AND REASONABLY WELL IN COMMAND.

4. LITTLE NEW WAS SAID BY EITHER CANDIDATE ON THE SUBSTANCE OF THE ISSUES. UNDER THE PRESSURE OF DEBATE, BOTH WERE SOMETIMES FORCED INTO UNCOMFORTABLE POSITIONS. CRITICISED BY MONDALE FOR FAILING TO RETALIATE AFTER THE LEBANON BOMBINGS, THE PRESIDENT SAID "WE ARE BUSY TRYING TO FIND THE CENTRES WHERE THESE OPERATIONS STEM FROM, AND RETALIATION WILL BE TAKEN". ON THE STRATEGIC DEFENCE INITIATIVE, MONDALE AGAIN ATTEMPTED TO OUTFLANK THE PRESIDENT FROM THE RIGHT AND WAS SHARPLY CRITICAL OF THE PRESIDENT'S ORIGINAL IDEA, REPEATED LAST NIGHT, OF SHARING NEW SDI TECHNOLOGY WITH THE RUSSIANS. ASKED ABOUT HIS ATTITUDE TOWARDS PRO-WESTERN DICTATORS, THE PRESIDENT DEFENDED THE SHAH, WHO HAD LOYALLY "DONE OUR BIDDING", AND SHOULD NOT HAVE BEEN ABANDONED IN FAVOUR OF A "MANIACAL FANATIC, SLAUGHTERING THOUSANDS": AND THEN WENT ON TO SAY THAT THE US SHOULD STICK BY THE PRESENT GOVERNMENT IN THE PHILIPPINES, BECAUSE THE ONLY ALTERNATIVE WAS A COMMUNIST TAKE-OVER.

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5. BOTH CAMPS CLAIM A VICTORY, AND IT REMAINS TO BE SEEN HOW THE POLLSTERS WILL SCORE THE CONTEST. BUT IT SEEMS A SAFE BET THAT IT DID LITTLE TO INCREASE THE WORRIES ABOUT THE PRESIDENT'S AGE AND COMPETENCE WHICH HIS PERFORMANCE IN THE FIRST DEBATE BROUGHT TO THE SURFACE. MONDALE NEEDED A CLEAR WIN LAST NIGHT, AND DID NOT GET IT. THE GAP MAY CONTINUE TO CLOSE A LITTLE OVER THE NEXT TWO WEEKS. BUT, GIVEN HIS PERSONAL POPULARITY, REAGAN'S PERFORMANCE SHOULD PROVE SUFFICIENT TO STOP THE TRICKLE FROM TURNING INTO A TIDE.

FCO PASS SAVING:-

ANKARA, ATHENS, BRUSSELS, BONN, COPENHAGEN, LISBON, LUXEMBOURG
MADRID, UKDEL STOCKHOLM, DUBLIN, UKREP BRUSSELS, OTTAWA, OSLO,
PARIS, ROME, REYKJAVIK, THE HAGUE, UKDEL NATO, UKDEL VIENNA,
MOSCOW, TOKYO.

WRIGHT

(REPEATED AS REQUESTED)

FCO (PALACE) WHITEHALL

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FROM WASHINGTON 162230Z OCT 84.

TO PRIORITY F C O

TELEGRAM NUMBER 3096 OF 16 OCTOBER

INFO SAVING NATO POSTS, U.S.C.G.'S, BIS NEW YORK, MOSCOW, TOKYO,
DUBLIN, UKREP BRUSSELS.

MY TELNO 3048: PRESIDENTIAL CAMPAIGN.

SUMMARY

1. NEITHER SIDE LOST FROM THE BUSH/FERRARO DEBATE ON 11 OCTOBER AND THE PERFORMANCES OF BOTH PROBABLY STRENGTHENED THEIR RESPECTIVE TICKETS. THE OPINION POLL GAP CONTINUES TO NARROW BUT THE OVERALL ELECTORAL PICTURE REMAINS UNCHANGED, WITH REAGAN STILL AHEAD IN EVERY STATE EXCEPT THE DISTRICT OF COLUMBIA.

DETAIL

2. THE COMMENTATORS AGREE THAT BUSH AND FERRARO BOTH IMPROVED THEIR STANDING IN THE VICE-PRESIDENTIAL DEBATE ON 11 OCTOBER, BUT WITHOUT A CLEAR VICTORY FOR EITHER. AS EXPECTED, BUSH WAS MORE AUTHORITATIVE ON FOREIGN POLICY ISSUES. BUT FERRARO SCORED SOME GOOD POINTS ON DOMESTIC ISSUES, AND RESPONDED WELL TO A SLIGHTLY PATRONISING REMARK FROM BUSH. THE FACT THAT SHE HELD HER OWN AGAINST SUCH AN EXPERIENCED OPPONENT HAS PROBABLY ENHANCED HER CREDIBILITY. BUSH, FOR HIS PART, HAD MORE TO LOSE FROM A FURTHER MISHAP FOLLOWING THE PRESIDENT'S SHOWING IN THE FIRST DEBATE. BUT HIS CONFIDENT PERFORMANCE, EVEN IF SOMETIMES WIDE OF THE MARK ON FACTS (EG WHEN HE CLAIMED THAT THE REAGAN ADMINISTRATION HAD INCREASED SPENDING ON SOCIAL PROGRAMMES), AND OCCASIONALLY A TOUCH FRANTIC, SEEMS TO HAVE SUCCEEDED IN AVOIDING CONTRIBUTING TO ANY EROSION OF SUPPORT FOR THE PRESIDENT.

3. PUBLIC RECRIMINATION CONTINUES WITHIN THE REAGAN CAMP ABOUT WHAT WENT WRONG IN THE FIRST DEBATE. THE LATEST POLLS INDICATE THAT, WHILE THE GAP HAS CLOSED A LITTLE FURTHER, THE PRESIDENT IS STILL AHEAD IN EVERY STATE, WITH NO MORE THAN NINE STATES (INCLUDING NEW YORK) AT PRESENT REGARDED AS MARGINAL AND MONDALE AHEAD ONLY IN THE DISTRICT OF COLUMBIA.

4. THE STAKES WILL BE HIGH FOR THE SECOND PRESIDENTIAL DEBATE ON 21 OCTOBER, BUT REAGAN HAS THE ADVANTAGE THAT HIS SUPPORT IS WELL SPREAD THROUGHOUT THE CONTRY. IN THE ELECTORAL COLLEGE EVEN A SMALL ADVANTAGE IN THE POPULAR VOTE, IF EVENLY DISTRIBUTED, CAN GIVE A LANDSLIDE RESULT.

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FCO PASS SAVING:-

ANKARA, ATHENS, BRUSSELS, BONN, COPENHAGEN, LISBON,
LUXEMBOURG, MADRID, UKDEL STOCKHOLM, DUBLIN,
UKREP BRUSSELS, OTTAWA, OSLO, PARIS, ROME, REYKJAVIK,
THE HAGUE, UKDEL NATO, UKDEL VIENNA, MOSCOW, TOKYO.

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FCO (PAL) WHITEHALL

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CONFIDENTIAL

FM WASHINGTON 120045Z OCT 84

TO PRIORITY FCO

TELEGRAM NUMBER 3048 OF 11 OCTOBER

INFO SAVING NATO AND EC POSTS, US CGS, BIS NEW YORK, MOSCOW, TOKYO

MY TELNO 3006: THE PRESIDENTIAL CAMPAIGN

SUMMARY

1. THE COMMENTATORS AGREE THAT THE TELEVISED DEBATE ON 7 OCTOBER HAS PUT MONDALE BACK IN THE RACE. THE AGE FACTOR IS NOW AN OPENLY DISCUSSED ISSUE IN THE CAMPAIGN. THE PRESIDENT STILL HAS A SUBSTANTIAL LEAD, BUT SMALLER THAN BEFORE. THIS HAS RAISED THE STAKES FOR THE BUSH/FERRARO DEBATE TONIGHT. BUT THE BASICS - THE STRENGTH OF THE ECONOMY AND THE DEMOGRAPHIC SHIFT TO THE SUNBELT - REMAIN THE SAME AND BOTH BENEFIT THE PRESIDENT.

DETAIL

2. 90 MILLION AMERICANS ARE SAID TO HAVE WATCHED THE PRESIDENTIAL DEBATE LAST SUNDAY. THEY SAW THE PRESIDENT LOOKING UNCHARACTERISTICALLY NERVOUS AND HESITANT WHILE HIS CHALLENGER, BY CONTRAST, LOOKED RELAXED AND CONFIDENT AND DEALT CONVINCINGLY WITH THE ISSUES. THE PRESIDENT APPEARED VISIBLY TO FLAG TOWARDS THE END OF THE 100 MINUTES ON STAGE.

3. THE MEDIA HAVE UNANIMOUSLY DECLARED MONDALE THE WINNER. LEADING COLUMNISTS HAVE DESCRIBED THE DEBATE AS A DEBACLE FOR REAGAN AND THE MOST ONE-SIDED PRESIDENTIAL DEBATE SINCE THESE CONTESTS BEGAN. AS THE DAYS HAVE GONE BY THE JUDGEMENT HAS BECOME MORE EMPHATIC. INEVITABLY, THE COMMENTATORS ARE OFF ON A FRESH SCENT, LIKE FOX TERRIERS OUT ON A WALK. A CONSISTENT THEME OF PRESS COMMENT OVER THE LAST FEW DAYS, EVEN IN NEWSPAPERS NOT NORMALLY CRITICAL OF THE PRESIDENT (EG THE WALL STREET JOURNAL), HAS BEEN THAT HIS PERFORMANCE RAISED QUESTIONS ABOUT HIS AGE AND ABILITY TO SERVE FOUR MORE YEARS. THE WHITE HOUSE ARE NATURALLY PLAYING THIS DOWN AND HAVE ISSUED A STATEMENT BY THE PRESIDENT'S DOCTOR TO THE EFFECT THAT HE IS QUOTE A MENTALLY ALERT, ROBUST MAN UNQUOTE. BUT THE ISSUE IS AN AWKWARD ONE WHICH WILL NOT EASILY GO AWAY, PARTICULARLY IF THERE ARE FURTHER SLIPS OR STUMBLES- OR WORSE STILL ANY HINT OF ILLNESS- BETWEEN NOW AND THE ELECTION.

4. WHAT EFFECT ALL THIS WILL HAVE ON THE ELECTORATE IS NOT EASY TO SAY. THE BASICS HAVE NOT CHANGED. THE ECONOMY CONTINUES TO GROW, ALTHOUGH AT A SLOWER PACE. THE DEMOGRAPHIC SHIFT TO THE SUNBELT IS STILL THERE AND THE ETHOS OF THE SUNBELT IS NOT ABOUT TO CHANGE. THESE FACTORS CONTINUE TO BENEFIT THE PRESIDENT. POLLS TAKEN SINCE THE DEBATE SHOW REAGAN STILL COMFORTABLY AHEAD, THOUGH WITH HIS LEAD REDUCED BY ABOUT 3 POINTS (FROM 18 TO 15 POINTS). PERHAPS MORE SIGNIFICANT IS THE FACT THAT MONDALE'S APPROVAL RATING (IE THE PROPORTION OF VOTERS EXPRESSING A

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FAVOURABLE OPINION OF HIM) HAS RISEN, ACCORDING TO THE LATEST ABC POLL, FROM 41 PERCENT TO 54 PERCENT IN THE LAST WEEK.

THE PRESIDENT'S APPROVAL RATING HOWEVER HAS STAYED ABOUT LEVEL AT 60-61 PERCENT. THIS SUGGESTS THAT MONDALE DID HIS IMAGE A LOT OF GOOD, BUT HAS NOT YET MANAGED TO TRANSLATE THIS INTO POTENTIAL VOTES. CONVERSELY THE PRESIDENT'S OVERALL LEVEL OF SUPPORT APPEARS TO BE HOLDING UP PRETTY WELL.

5. THE GAP WAS EXPECTED TO CLOSE AND HAS NOW BEGUN TO DO SO. THE FIRST DEBATE HAS SHARPENED EXPECTATIONS/APPREHENSIONS ON EACH SIDE FOR THE BUSH/FERRARO ENCOUNTER TONIGHT AND THE REAGAN/ MONDALE REPLAY ON 21 OCTOBER. MONDALE STILL HAS A GREAT DEAL OF LEEWAY TO MAKE UP IF HE IS TO GET WITHIN STRIKING DISTANCE. BUT HE IS BACK IN THE RACE, AND BOTH HE, HIS RUNNING MATE AND HIS SUPPORTERS HAVE SHAKEN OFF THE AIR OF INEVITABLY IMPENDING DEFEAT WHICH DOGGED HIM BEFORE THE DEBATE. HIS CAMPAIGN CROWDS HAVE BEEN BIGGER, AND SPEECHES SHARPER, THIS WEEK: AND THE PRESIDENTS' CAMPAIGN STAFF SEEM CORRESPONDINGLY MORE ON EDGE, THOUGH STILL CONFIDENT. FOR THE FIRST TIME, THE RACE HAS COME ALIVE, BUT THE ODDS ARE STILL ON REAGAN TO WIN.

FCO PASS SAVING TO

ANKARA ATHENS BRUSSELS BONN COPENHAGEN LISBON LUXEMBOURG MADRID
UKDEL STOCKHOLM DUBLIN MOSCOW TOKYO OTTAWA OSLO PARIS ROME REYKJAVIK
THE HAGUE UKDEL NATOUKDEL VIENNA UKREP BRUSSELS

WRIGHT

FCO(PALACE)/WHITEHALL
NAD

(REPEATED AS REQUESTED)

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GRS 700

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AMENDED DISTRIBUTION 9 OCTOBER 1984

FM WASHINGTON 081729Z OCT 84

TO PRIORITY F C O

TELEGRAM NUMBER 3006 OF 8 OCT

INFO SAVING NATO AND EC POSTS, US CG'S BIS NEW YORK, MOSCOW, TOKYO.

REAGAN/MONDALE DEBATE ON 7 OCTOBER

SUMMARY.

1. NO KNOCK-OUT PUNCHES, BUT FIRST IMPRESSIONS OF THE DEBATE SUGGEST A WIN TO MONDALE ON POINTS. HE PERFORMED WELL, AND KEPT THE PRESIDENT ON THE DEFENSIVE, BUT HE HAS A HUGE GAP TO CLOSE.

DETAIL

2. THE FIRST OF THE 2 TELEVISED DEBATES BETWEEN THE PRESIDENTIAL CONTENDERS TOOK PLACE IN LOUISVILLE, KENTUCKY LATE ON 7 OCTOBER. IT COVERED DOMESTIC, AND PRIMARILY ECONOMIC ISSUES: FOREIGN AFFAIRS WILL BE COVERED IN THE RETURN MATCH ON 21 OCTOBER. "DEBATE" IS IN FACT A MISNOMER, FOR THE FORMAT, AT WHITE HOUSE INSISTENCE, GAVE FEW OPPORTUNITIES FOR DIRECT EXCHANGES BETWEEN THE CONTESTANTS AS EACH IN TURN ANSWERED QUESTIONS FROM A PANEL OF JOURNALISTS. BUT MONDALE STOOD TO GAIN FROM THE VERY FACT OF SHARING A PLATFORM WITH THE PRESIDENT. AND HE MADE FULL USE OF HIS CHANCE, SEEMING MUCH MORE RELAXED AND CONFIDENT THAN THE PRESIDENT, WHO APPEARED SURPRISINGLY NERVOUS. ALTHOUGH HIS CAMPAIGN STAFF HAD MAINTAINED IN ADVANCE THAT MONDALE WOULD BE VERY AGGRESSIVE, HE - NO DOUBT WISELY - ELECTED INSTEAD TO BE STATESMANLIKE, ACKNOWLEDGING THAT THE PRESIDENT WAS A LIKEABLE MAN WHO HAD DONE MUCH TO RAISE US MORALE, BUT ARGUING THAT AMIABILITY WAS NOT ENOUGH, GIVEN LIKELY FUTURE ECONOMIC PROBLEMS.

3. ON THE ECONOMY THE PRESIDENT DEFENDED HIS RECORD - ECONOMIC GROWTH SHARPLY UP, INFLATION DOWN, NOMINAL INTEREST RATES DOWN, THE RATE OF INCREASE IN GOVERNMENT SPENDING DOWN, AMERICA ON THE MOVE AGAIN. MONDALE REPEATEDLY STRESSED THE DANGERS OF THE DEFICIT, HIGH REAL INTEREST RATES, AND A LARGE ADVERSE TRADE BALANCE, AND THE UNACCEPTABILITY OF SADDLING FUTURE GENERATIONS WITH ENORMOUS ACCUMULATED DEBT. REAGAN IN TURN REPEATEDLY REMINDED HIS AUDIENCE THAT MONDALE ENVISAGED TAX INCREASES: NEEDED BY THE ACCUSATION THAT HE TOO WOULD FIND AN INCREASE UNAVOIDABLE DURING THE NEXT 4 YEARS HE STATED IN TERMS THAT HE WOULD MAKE NONE, (THOUGH THIS WAS SUBSEQUENTLY HALF-QUALIFIED BY A REFERENCE TO A POSSIBLE TAX HIKE AS A 'LAST RESORT' MEASURE) NEEDED ON HIGH INTEREST RATES, AND CONSEQUENT DAMAGE TO AGRICULTURE, HE DENIED THAT THERE WAS ANY CONNECTION BETWEEN DEFICITS AND INTEREST RATES (REFERRING INSTEAD TO MISTAKENLY HIGH INFLATIONARY EXPECTATIONS.) MONDALE MOCKED "VOODOO ECONOMICS" AND HOPES FOR DEFICIT REDUCTION "BY MAGIC": REAGAN ARGUED THAT GROWTH, AND HENCE A HIGHER TAX-TAKE AT PRESENT RATES, WOULD DISSOLVE THE PROBLEM.

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4. A SUB-THEME WAS 'FAIRNESS', WITH MONDALE STRESSING THE UNEVEN-NESS OF THE RECOVERY, AND ARGUING THAT THE PRESIDENT'S TAX CUTS HAD MADE THE RICH RICHER, WHILE HIS SPENDING CURBS HAD MADE THE POOR POORER. REAGAN GAVE A COMMITMENT TO NO REDUCTION IN SOCIAL SECURITY BENEFITS, AND DENIED - THOUGH LESS CATEGORICALLY - ANY INTENTION OF CUTTING MEDICARE.

5. MUCH OF THE REST OF THE DEBATE CENTRED ON THE ISSUE OF RELIGION AND POLITICS, WITH THE PRESIDENT ARGUING THAT A LINK WAS INEVITABLE, AND ATTACKING LIBERAL ATTITUDES TO PRAYER IN SCHOOLS, AND ON ABORTION, AND MONDALE WARNING OF THE DANGERS OF ANY LINK, AND OF THE INFLUENCE OF FUNDAMENTALISTS LIKE FULWELL ON E.G. SUPREME COURT APPOINTMENTS. THE PRESIDENT WAS PLAINLY MORE AT EASE ON THESE THAN ON ECONOMIC ISSUES, ON WHICH HE FREQUENTLY TOOK REFUGE IN SELECTIVE, AND OCCASIONALLY INCOHERENT, STATISTICS - QUOTING, THOUGH REMAINING CALM AND GOOD-HUMOURED.

6. THE AVERAGE TELEVISION-VIEWERS ARE PROBABLY MORE INTERESTED IN THE PERFORMANCE OF THE 2 CANDIDATES THAN IN THE POLICY - CONTENT OF THE DISCUSSION. GIVEN THAT THE POLLS SHOW THAT REAGAN IS THOUGHT TO BE GREATLY HIS SUPERIOR IN TERMS OF LEADERSHIP QUALITIES, THEY MAY HAVE BEEN SURPRISED AT MONDALE'S FIRMNESS AND COMPETENCE, BELYING HIS 'WIMP' IMAGE. BEING THE INCUMBENT DID NOT WORK IN REAGAN'S FAVOUR: RATHER IT FORCED HIM ON TO THE DEFENSIVE.

7. SUCH DEBATES CUSTOMARILY BENEFIT THE UNDERDOG: A 6 POINT LEAD FOR CARTER EVAPORATED AFTER HIS DEBATE WITH REAGAN IN 1980, AND KENNEDY CONVERTED A 1 POINT DEFICIT TO A 3 POINT LEAD AFTER HIS FIRST DEBATE WITH NIXON IN 1960. BUT THE EVE-OF-DEBATE GAP THIS TIME WAS VERY MUCH WIDER: 17 POINTS ACCORDINGLY TO GALLUP, 18 ACCORDING TO ABC. THERE STILL ARE 4 WEEKS TO GO: AND SOME NARROWING OF THE GAP IS LIKELY, AND INDEED LONG OVERDUE: IT REMAINS TO BE SEEN WHETHER THE EFFECT OF THE DEBATE MAKES A SUBSTANTIAL DENT IN THE PRESIDENT'S PROSPECTS.

FCO PLEASE PASS SAVING TO :-

ANKARA, ATHENS, BRUSSELS, BONN, COPENHAGEN, LISBON, LUXEMBOURG, MADRID, UKDEL STOCKHOLM, MOSCOW, OTTAWA, OSLO, PARIS, ROME, REYKJAVIK, THE HAGUE, UKDEL NATO, UKDEL VIENNA, TOKYO, DUBLIN, UKREP BRUSSELS.

(REPEATED AS REQUESTED)

WRIGHT

FCO(PALACE)/WHITEHALL

NAD

CONFIDENTIAL


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FM WASHINGTON 021607Z OCTOBER, 1984

TO PRIORITY F C O

TELEGRAM NUMBER 2934 OF 2 OCTOBER

INFO SAVING ALL CG'S IN USA, BIS NEW YORK, UKMIS NEW YORK, ANKARA, ATHENS, BRUSSELS, BONN, COPENHAGEN, LISBON, LUXEMBOURG, OTTAWA, OSLO, PARIS, ROME, REYKJAVIK, THE HAGUE, UKDEL NATO, UKDEL VIENNA, DUBLIN, UKREP BRUSSELS, MADRID, MOSCOW AND TOKYO.

MY TELNO 2763: THE PRESIDENTIAL CAMPAIGN 

SUMMARY

1. RAISING FOREIGN POLICY ISSUES, MONDALE SHARPENS HIS ATTACK. THE TROUBLES OF THE LABOR SECRETARY, DONOVAN ADD TO THE SLEAZE FACTOR. BUT WITH FIVE WEEKS TO GO, REAGAN IS STILL WELL OUT IN FRONT.

DETAIL

2. THE BEIRUT EMBASSY BOMB AND GROMYKO'S VISIT TO WASHINGTON HAVE BROUGHT FOREIGN POLICY ISSUES MORE TO THE FORE IN THE CAMPAIGN OVER THE LAST TEN DAYS. MONDALE HAS SOUGHT TO BLAME REAGAN FOR THE FAILURE OF EMBASSY SECURITY IN BEIRUT, AND HAS BEEN SCEPTICAL OF HIS 'DEATHBED CONVERSION' TO THE CAUSE OF PEACE-MAKING WITH THE RUSSIANS. BUT THE SHARPENED ATTACK HAS NOT YET SERIOUSLY DAMAGED THE PRESIDENT.

3. THE BEIRUT BOMBING, WITH ITS REMINDER OF EARLIER-US FAILURES IN THE AREA, LOOKED BRIEFLY AS IF IT MIGHT BECOME A SERIOUS ELECTORAL ISSUE. IT MAY YET, AND THE PRESIDENT HAS CERTAINLY HANDLED IT BADLY. RESPONDING TO MONDALE'S ACCUSATION OF SLOWNESS IN COMPLETING EMBASSY SECURITY WORKS, HE DREW A RASH COMPARISON WITH DELAYS IN RE-DECORATING A KITCHEN. THE ERROR WAS COMPOUNDED WHEN HE LATER WENT ON TO BLAME THE 'NEAR-DESTRUCTION OF OUR INTELLIGENCE CAPABILITY' IN THE PAST, AND WHEN HIS STAFF EXPLAINED THIS AS A REFERENCE TO THE CARTER-MONDALE ADMINISTRATION. THIS PROVOKED A STRINGING RIPOSTE FROM MONDALE, DENIALS BY VARIOUS FORMER CIA CHIEFS (INCLUDING BUSH), AND SUBSEQUENT BACK-PEDALLING BY THE WHITE HOUSE.

4. MONDALE HAS ALSO SOUGHT TO CAPITALISE ON THE GROMYKO VISIT. HE HAD HIS OWN BRIEF MOMENT OF LOOKING PRESIDENTIAL WHEN HE MET GROMYKO IN NEW YORK ON 27 SEPTEMBER AND AFTERWARDS ANNOUNCED THAT HE SAW SOME OPPORTUNITY FOR SIGNIFICANT PROGRESS IN US/SOVIET RELATIONS. BUT HIS MOMENT IN THE SPOTLIGHT WAS INEVITABLY UPSTAGED BY THE SUBSEQUENT REAGAN/GROMYKO MEETING. AS FORESEEN, GROMYKO'S VISIT WAS AN ELECTORAL PLUS FOR THE PRESIDENT. MONDALE'S COMPLAINTS ABOUT THE LATENESS OF HIS CONVERSION TO TALK OF PEACE MAKE LESS IMPACT HERE THAN DOES THE COVERAGE OF A SOVIET LEADER IN THE WHITE HOUSE, WITH THE PRESIDENT URGING HIM TO AGREE TO TALK MORE.

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US Action

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5. DONOVAN, SECRETARY OF LABOR, IS ALSO IN TROUBLE. A GRAND JURY HAS INDICTED HIM AND HIS CONSTRUCTION COMPANY ON CHARGES OF GRAND LARCENY AND FRAUD. DONOVAN HAS DENIED THE CHARGES AND CONDEMNED THE PARTISAN TIMING OF THE BRONX ATTORNEY-GENERAL. IT REMAINS TO BE SEEN WHETHER THIS FRESH EXAMPLE OF THE SLEAZE FACTOR WILL STICK.

6. THE LATEST POLLS - TAKEN BEFORE MONDALE LAUNCHED HIS FOREIGN POLICY ATTACK - CONTINUE TO GIVE REAGAN A COMFORTABLE LEAD (18 POINTS ACCORDING TO GALLUP). THE MONDALE STAFF ARGUE THAT HIS SPEECH LAST WEEK AT GEORGE WASHINGTON UNIVERSITY, CASTIGATING 'THE NEW REAGAN' IN THE TOUGHEST LANGUAGE HE HAS USED SO FAR IN THE CAMPAIGN, COULD MARK THE BEGINNING OF A NEW PHASE. THIS REMAINS TO BE SEEN. THE POLITICAL PUNDITS POINT OUT THAT THE GAP USUALLY CLOSES IN THE LAST FIVE WEEKS. HUMPHREY WAS 15 POINTS BEHIND NIXON AT THIS STAGE IN 1968 BUT CLOSED TO 1 POINT ON ELECTION DAY: FORD CLOSED FROM 11 POINTS TO 2 POINTS IN 1976. BUT WHILE THE MARGIN MAY WELL BE SMALLER THAN THE POLLS NOW SUGGEST, THE ODDS REMAIN HEAVILY ON REAGAN. THE FORTHCOMING TELEVISED DEBATES (REAGAN/MONDALE ON 7 AND 21 OCTOBER, BUSH/FERRARO ON 11 OCTOBER) ARE NOW SEEN AS MONDALE'S MAIN HOPE OF MAKING A DRAMATIC SURGE. BUT REAGAN WON SIMILAR DEBATES WITH BOTH BUSH AND CARTER IN 1980.

FCO PAS SAVING ANKARA, ATHENS, BRUSSELS, BONN, COPENHAGEN, LISBON, LUXEMBOURG, OTTAWA, OSLO, PARIS, ROME, REYKJAVIK, THE HAGUE, UKDEL NATO, UKDEL VIENNA, DUBLIN, UKREP BRUSSELS, MADRID, MOSCOW AND TOKYO.

(REPEATED AS REQUESTED)

WRIGHT

FCO(PALACE)WHITEHALL

NAD

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UNCLASSIFIED

FM WASHINGTON 262010Z SEP 84

TO PRIORITY FCO

TELEGRAM NUMBER 2866 OF 26 SEPTEMBER

INFO ROUTINE UKDEL OECD, UKMIS GENEVA, UKREP BRUSSELS.

PRESIDENTS REAGAN'S SPEECH AT THE IMF/IBRD ANNUAL MEETING

SUMMARY

1. PRESIDENT REAGAN, IN AN OPTIMISTIC SPEECH ON 25 SEPTEMBER TO A PLENARY SESSION OF THE IMF/IBRD ANNUAL MEETING, EXPRESSED CONFIDENCE IN THE RECOVERY AT HOME AND ABROAD BASED ON THE LEADERSHIP OF THE US ECONOMY. HE EXTOLLED THE VIRTUES OF PRODUCTIVITY GROWTH STEMMING FROM ECONOMIC FREEDOM AND LOWER PERSONAL TAX RATES COMBINED WITH NEW TECHNOLOGY. THE PRESIDENT SUGGEST THAT INCREASED US IMPORTS FROM LESS DEVELOPED COUNTRIES MORE THAN OFFSET THE EFFECT OF HIGH US INTEREST RATES ON LDC DEBT REPAYMENTS, AND REAFFIRMED THE US COMMITMENT TO THE IMF AND WORLD BANK. ON TRADE, HE MADE A STRONG PLEA FOR FURTHER LIBERALISATION AND A NEW NEGOTIATING ROUND IN THE GATT.

DETAIL

2. THE PRESIDENT, NO DOUBT WITH HIS DOMESTIC AUDIENCE PARTLY IN MIND, INVITED THE REPRESENTATIVES OF FOREIGN COUNTRIES TO JOIN WITH THE UNITED STATES IN CREATING WORLD PROSPERITY BASED ON FREE ENTERPRISE. HE RECOUNTED AMERICAN SUCCESS - 21 STRAIGHT MONTHS OF ECONOMIC GROWTH, THE CREATION OF SIX MILLION JOBS AND 4 PER CENT INFLATION - WHICH HE ASCRIBED LARGELY TO SUCCESS IN RESTRAINING PUBLIC SPENDING AND INCREASING PERSONAL INCENTIVES. HE UNDERTOOK TO MAKE FURTHER IMPROVEMENTS IN THIS DIRECTION, INCLUDING CONSTITUTIONAL LIMITATIONS ON US BUDGET DEFICITS AND A 'HISTORIC' SIMPLIFICATION OF THE AMERICAN TAX SYSTEM THAT WOULD FURTHER REDUCE TAX RATES, AND SAW A CONTINUATION IN THE CURRENT DECLINE IN US INTEREST RATES.

3. REAGAN NOTED THAT GROWTH OF OVER 3 PER CENT IS BEING FORECAST FOR OTHER INDUSTRIAL COUNTRIES IN 1984 AND 1985, AND THAT THE OUTLOOK IN THE LDCS IS ALSO IMPROVING. HE SAID THAT US IMPORTS IN 1984 WOULD EXCEED THOSE IN 1983 BY OVER 25 PER CENT, AND THAT IMPORTS FROM THE NON-OPEC LCDS HAD RISEN BY DOLLARS 12 BILLION IN THE FIRST SEVEN MONTHS OF 1984 COMPARED WITH THE SAME PERIOD IN 1983. HE CONTRASTED THIS DOLLARS 12 BILLION INCREASE WITH THE DOLLARS TWO AND A HALF BILLION ADDITION TO THE DEBT REPAYMENT OF LDCS OF A 1 PER CENT RISE IN INTEREST RATES. HE REAFFIRMED THE CURRENT APPROACH TO INTERNATIONAL DEBT PROBLEMS AND REINFORCED THE CONCLUSION OF THE WILLIAMSBURG ECONOMIC SUMMIT IN FAVOUR OF A FIVE-PART DEBT STRATEGY AND AGAINST A 'QUICK FIX' THAT WOULD NOT SOLVE DEEP-SEATED ECONOMIC PROBLEMS. HE SAID THAT A VARIETY OF CAPITAL INFLOWS INTO THE DEVELOPING COUNTRIES WOULD BE NECESSARY IN THE THE FUTURE AND TO ENCOURAGE THESE FLOWS CERTAIN CONDITIONS WERE NECESSARY: A POSITIVE REAL INTEREST RATE, A REALISTIC EXCHANGE RATE, FREE CURRENCY CONVERTIBILITY AND A RESPECT FOR PROPERTY RIGHTS.

4. ON WORLD TRADE, HE REFERRED TO FEARS - ESPECIALLY AMONG DEBTOR COUNTRIES - OF A TRADE PROTECTIONISM IN THE UNITED STATES. HE EXPRESSED THE WISH TO PUT THESE FEARS TO REST AND REFERRED TO ANT-PROTECTIONIST DECISIONS BY THE ADMINISTRATION ON TUNA, CUTLERY, SHOES, COPPER AND TO LAST WEEK'S DECISION NOT TO ALLOW FORMAL QUOTA AND TARIFF RELIEF FOR THE STEEL INDUSTRY. HE ALSO REFERRED TO US PROPOSALS AT THE LONDON SUMMIT FOR NEW EFFORTS TO LIBERALISE AND EXPAND INTERNATIONAL TRADE: CLAIMED THAT CONSULTATIONS WERE CONTINUING AMONGST GATT COUNTRIES FOR A NEW NEGOTIATING ROUND WHICH HE SUPPORTED: AND URGED ALL TO JOIN IN.

5. ON THE INTERNATIONAL FINANCIAL INSTITUTIONS THEMSELVES, HE GAVE EXPLICIT SUPPORT FOR THE DECISION OF THE LONDON ECONOMIC SUMMIT TO HOLD INTENSIFIED DISCUSSION ON FINANCIAL ISSUES OF CONCERN TO DEVELOPING COUNTRIES WITHIN THE DEVELOPMENT COMMITTEE AND TO THE INTERIM COMMITTEE'S DECISION TO ACCEPT TREASURY SECRETARY REGAN'S PROPOSAL FOR AN ENHANCED DIALOGUE BETWEEN THE INDUSTRIALISED AND DEVELOPING COUNTRIES ON HOW TO SUSTAIN NONINFLATIONARY GROWTH. RECALLING THAT THE UNITED STATES WAS ONE OF THE FOUNDING FATHERS OF THE IMF AND IBRD, HE RE-COMMITTED THE US TO THE AGREED LEVEL OF ITS CONTRIBUTION TO THE IBRD SELECTIVE CAPITAL INCREASE, THE SEVENTH REPLENISHMENT OF IDA AND THE CAPITAL INCREASE OF THE IFC. HE ALSO REFERRED TO THE PROBLEMS BESETTING SUB-SAHARAN AFRICA AND SAID THAT THE US LOOKED FORWARD TO WORKING WITH THE IMF/IBRD, OTHER DONORS, AND AFRICAN COUNTRIES IN RESPONSE TO THE PROBLEMS THERE UNCOVERED IN VARIOUS IBRD REPORTS, AND ALSO MENTIONED THE US ECONOMIC POLICY INITIATIVE FOR AFRICA, PROVIDING FOR A US CONTRIBUTION OF DOLLARS 500 MILLION OVER FIVE YEARS.

6. FCO PLEASE PASS TO HEALY (DTI), LAVELLE (TREASURY), TAIT (ERD), WARE AND D W GREEN (BANK).

WRIGHT

MONETARY

NAD
ERD.

COPIES TO

MR. HEALY - DTI
MR. LAVELLE - TSY
MR. TAIT - ERD
MR. WARE
MR. DW. GREEN } B/E.

GPS 1000
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FM WASHINGTON 181440Z SEP 84

TO PRIORITY FCO

TELEGRAM NUMBER 2763 OF 18 SEPTEMBER

INFO SAVING ALL CG'S IN USA, BIS NEW YORK, UKMIS NEW YORK, ANKARA
ATHENS, BRUSSELS, BONN, COPENHAGEN, LISBON, LUXEMBOURG, OTTAWA,
OSLO, PARIS, ROME, REYKJAVIK, THE HAGUE, UKDEL NATO, UKDEL VIENNA,
DUBLIN, UKREP BRUSSELS, MADRID, MOSCOW, TOKYO.

MIPT: THE PRESIDENTIAL CAMPAIGN: THE ISSUES

SUMMARY

1. CAMPAIGN SKIRMISHING HAS CENTRED ON THREE ISSUES: CHURCH/STATE,
THE DEFICIT, AND WAR/PEACE. BUT PUBLIC CONFIDENCE IN REAGAN'S
LEADERSHIP SEEMS UNSHAKEN.

DETAIL

2. SINCE THE CAMPAIGN PROPER OPENED ON LABOUR DAY (3 SEPTEMBER),
BOTH CANDIDATES HAVE CAMPAIGNED HARD. THE PRESIDENT'S SCHEDULE
HAS COMBINED TRIPS OUTSIDE WASHINGTON WITH WHITE HOUSE EVENTS
DESIGNED TO ENHANCE THE QUOTE PRESIDENTIAL UNQUOTE IMAGE. HE CONT-
INUES TO PREACH THE MESSAGE OF PEACE, PROSPERITY AND PIETY. BY
CONTRAST, MONDALE'S CAMPAIGN IS IN THE DOLDRUMS. HE HAS PICKED THREE
ISSUES WHICH HAVE SO FAR DOMINATED THE CAMPAIGN (CHURCH/STATE, THE
BUDGET DEFICIT, AND WAR/PEACE), BUT THE POLLS SHOW HIM STILL TRAILING
THE PRESIDENT BY A WIDE MARGIN.

RELIGION AND POLITICS

3. THE RELATIONSHIP BETWEEN CHURCH AND STATE BECAME AN ACTIVE
NATIONAL ISSUE AT THE REPUBLICAN CONVENTION. THE PROMINENCE THERE OF
RIGHT-WING FUNDAMENTALISTS BROUGHT HOME TO THE DEMOCRATS THE
EXTEND TO WHICH THE REPUBLICANS HAD APPROPRIATED RELIGIOUS ISSUES
IN RECENT YEARS. MANY, INCLUDING MONDALE HIMSELF, WERE OFFENDED BY
THE PRESIDENT'S STRESS ON THE LINKS BETWEEN RELIGION AND POLITICS,
AND HIS BRANDING THOSE WHO OPPOSED PRAYER IN PUBLIC SCHOOLS AS
QUOTE INTOLERANT OF RELIGION. UNQUOTE MONDALE FOUGHT BACK IN A
SERIES OF SPEECHES, DECLARING THAT QUOTE MOST AMERICANS WOULD BE
SURPRISED TO LEARN THAT GOD IS A REPUBLICAN, UNQUOTE AND ACCUSING
HIS OPPONENTS OF QUOTE MORAL MCCARTHYISM. UNQUOTE BUT THE DEMOCRATIC
ATTEMPT TO DRAW A FIRM LINE BETWEEN CHURCH AND STATE HAS FALTERED
AS PROMINENT CATHOLIC DEMOCRATS (FERRARO AND GOVERNOR CUOMO) HAVE
COME UNDER ATTACK BY THE ROMAN CATHOLIC HIERARCHY ON ISSUES SUCH AS
ABORTION. WITH AN EYE ON THE BLUE COLLAR VOTE, THE PRESIDENT HAS
CAPITALISED ON THESE DIVISIONS WITHIN CATHOLIC RANKS, STEPPING UP
APPEARANCES AT POLISH AND ITALIAN AMERICAN EVENTS AT WHICH THE
PRESENCE OF CATHOLIC LEADERS HAS PROVIDED AN IMPLICIT ENDORSEMENT.
OVERALL, THE RELIGION ISSUE HAS PROBABLY HELPED THE PRESIDENT IN
THE SOUTH AND DONE HIM NO HARM IN MOST PARTS OF THE WEST. IT IS
LIKELY TO HAVE BEEN marginally DAMAGING IN THE NORTH-EAST, MID-WEST
AND THE PACIFIC, BUT NOT THE SURE-FIRE WINNER FOR DEMOCRATS THAT
MONDALE MUST HAVE HOPED.

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/BUDGET

BUDGET DEFICIT

4. ON 10 SEPTEMBER MONDALE PUBLISHED PROPOSALS FOR REDUCING THE BUDGET DEFICIT TO DOLLARS 86 BILLION BY FY1989 (COMPARED WITH THE DOLLARS 263 BILLION BASELINE ESTIMATED BY THE CONGRESSIONAL BUDGET OFFICE.) THE RISE IN DEFENCE EXPENDITURE, UNDER HIS PLAN, WOULD BE CUT BACK TO 3-4 PER CENT A YEAR IN REAL TERMS (WITH MX AND B-1 AXED, AND MIDGETMAN AND THE STEALTH BOMBER SPARED). SPENDING ON DISCRETIONARY PROGRAMMES WOULD RISE BY A NET DOLLARS 22 BILLION. TAX INCREASE PROPOSALS INCLUDE A 15 PER CENT MINIMUM CORPORATE TAX: FURTHER DELAYS IN CERTAIN TAX REDUCTIONS ENACTED IN 1981 (AND ALREADY DELAYED UNDER THE 1984 DEFICIT REDUCTION ACT): CHANGES TO TAX INDEXING FOR INDIVIDUALS: A LIMIT ON THE THIRD YEAR OF THE REAGAN TAX CUT FOR HIGH INCOME-EARNERS: AND A 10 PER CENT SURCHARGE FOR MARRIED COUPLES WITH INCOMES OVER DOLLARS 100,000 AND FOR SINGLE PERSONS WITH INCOMES OVER DOLLARS 70,000.

5. PRESIDENT REAGAN COMMENTED THAT MONDALE'S PROPOSALS ARE QUOTE NOTHING NEW UNQUOTE - A QUOTE FAIRY TALE UNQUOTE WHICH WOULD TIE A BALL AND CHAIN ROUND THE NECK OF THE AMERICAN PEOPLE. VICE PRESIDENT BUSH SAID THAT THE PROPOSALS REPRESENTED QUOTE A RETURN TO GLOOM AND DOOM. UNQUOTE BOTH HAVE AVOIDED MAKING COUNTER-PROPOSALS. THE DEFICIT ISSUE HAS PROBABLY WORKED, marginally, TO MONDALE'S ADVANTAGE SINCE THE DEMOCRATIC CONVENTION. (THE POLITICAL PRICE OF PROPOSING SPECIFIC TAX INCREASES IS SMALL SINCE THE GROUPS AFFECTED WOULD, GENERALLY, VOTE REPUBLICAN IN ANY CASE.) BUT THE DEFICIT SHOWS NO SIGNS OF BECOMING A WINNING ELECTORAL ISSUE FOR HIM. THE MAJORITY SEEM STILL PREPARED TO SWALLOW THE PRESIDENTS LINE OF BLAMING THE DEMOCRATS IN CONGRESS, NOT THE ADMINISTRATION, FOR EXCESS SPENDING, AND HENCE BORROWING.

FOREIGN POLICY

6. MONDALE AND FERRARO HAVE CONTINUED TO STRESS THE NEED FOR EAST/WEST DIALOGUE AND DETENTE, AND TO CRITICISE REAGAN FOR INADEQUATE EFFORTS TO KEEP THE SUPERPOWER RELATIONSHIP IN WORKING ORDER. THERE HAS BEEN A DELIBERATE ATTEMPT TO DRAFT CONSERVATIVE DEMOCRATS INTO THE SENIOR MONDALE ADVISORY TEAM. MAX KAMPELMAN (US CSCE DELEGATION) AND JAMES SCHLESSINGER (MEMBER OF NIXON, FORD AND CARTER ADMINISTRATION) HAVE BOTH ATTENDED RECENT BRIEFING MEETINGS. MONDALE HAS REAFFIRMED HIS PLATFORM PLEDGES TO SEEK A SUMMIT BY JUNE: TO ENFORCE UNILATERAL QUOTE TEMPORARY MORATORIA UNQUOTE ON THE TESTING OF NUCLEAR WEAPONS AND THE TESTING AND DEPLOYMENT OF SPACE WEAPONS: AND TO NEGOTIATE A NUCLEAR FREEZE. THIS KEEPS FAITH WITH THE DEMOCRATIC FAITHFUL, BUT THERE IS LITTLE EVIDENCE THAT IT REACHES OUT BEYOND THEM. ALTHOUGH THE POLLS SHOW MONDALE REGARDED AS MORE LIKELY THAN REAGAN TO KEEP THE US OUT OF WAR, THEY ALSO SHOW THE PRESIDENT THOUGHT MORE TRUST-WORTHY IN THE HANDLING OF FOREIGN

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RELATIONS. THE MONDALE TEAM HAVE YET TO FIND A WAY OF DEFLECTING MRS KIRKPATRICK'S ATTACK IN DALLAS ON DEMOCRATS FOR QUOTE BLAMING AMERICA FIRST. UNQUOTE AND SOME OF THE STEAM WENT OUT OF THE DEMOCRATIC COUNTER-ATTACK WITH THE ANNOUNCEMENT THAT THE PRESIDENT WOULD MEET GROMYKO LATER THIS MONTH. THE PRESIDENT CAN HARDLY LOSE, WHATEVER HAPPENS. IF GROMYKO IS INTRANSIGENT, THE WHITE HOUSE CAN SCORN DEMOCRATIC APPEASERS: IF GROMYKO IS ACCOMODATING, THE WHITE HOUSE LINE WILL BE THAT TOUGH TALKING WORKS. VMONDALE'S OWN MEETING WITH GROMYKO (NOW SCHEDULED FOR THE DAY AFTER SHULTZ'S AND THE DAY BEFORE REAGAN'S) WILL NOT BE EASY TO TURN TO ADVANTAGE. HE HAS ALREADY FOUND IT NECESSARY TO SAY THAT HE WILL GIVE FULL SUPPORT TO THE PRESIDENT'S POSITION AS THE SOLE POWER WITH THE RIGHT TO NEGOTIATE ON BEHALF OF THE US.

7. IN SHORT, THE MONDALE CAMPAIGN HAS SO FAR FAILED TO FIND AN ISSUE WHICH REALLY PAYS OFF. AND MONDALE THE MAN STILL DOES NOT LOOK A VOTE-WINNER. THE REAGAN STRATEGY OF AVOIDING DETAILED POLICY PRESCRIPTIONS (AS POTENTIAL HOSTAGES TO FORTUNE): AND OF APPEARING THE HONEST OUTSIDER, TRUE TO OLD VALUES AND (EVEN AFTER FOUR YEARS IN OFFICE) CRITICAL OF THE RED-TAPE BUREAUCRACY AND OF THE SPENDTHRIFT CONGRESS, APPEARS TO WORK WELL. FOR AMERICA LIKES REAGAN THE MAN.

FCO PSE PASS SAVING ALL SAVE U.S. POSTS.

WRIGHT

[REPEATED AS REQUESTED]

FGO/PALACE. WHITEHALL

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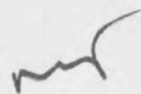
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FM WASHINGTON 181430Z SEP 84

TO PRIORITY FCO

TELEGRAM NUMBER 2762 OF 18 SEPTEMBER

INFO SAVING CG'S IN USA, BIS NEW YORK, UKMIS NEW YORK, ANKARA, ATHENS, BRUSSELS, BONN, COPENHAGEN, LISBON, LUXEMBOURG, OTTAWA, OSLO, PARIS, ROME, REYKJAVIK, THE HAGUE, UNDEL NATO, UKDEL VIENNA, DUBLIN, UKREP BRUSSELS, MADRID, MOSCOW, TOKYO.

THE PRESIDENTIAL ELECTION: THE EARLY RUNNING 

SUMMARY

1. AS OF NOW, IT LOOKS LIKE REAGAN TO WIN IN A LANDSLIDE. BUT THERE ARE STILL SEVEN WEEKS TO GO.

DETAIL

2. WITH SEVEN WEEKS TO GO, OPINION POLLS, COMMENTATORS, DEMOCRATS AND REPUBLICANS ALIKE ARE FORECASTING WHAT IS CALLED HERE A QUOTE SHOO-IN UNQUOTE FOR REAGAN. HIS LEAD OVER MONDALE IN THE LATEST POLLS AVERAGES 16 POINTS, WITH PRIVATE POLLS BY BOTH PARTIES SHOWING IT AT SOME 10 POINTS, AND SOME PUBLISHED POLLS PUTTING IT AS HIGH AS 25 TO 30 POINTS. MONDALE HAS YET TO FIND AN ISSUE - SEE MIFT - ON WHICH THE PRESIDENT IS SERIOUSLY VULNERABLE. AS A RESULT PUBLIC INTEREST IN THE CONTEST IS STILL LOW, WITH MOST AMERICAN VOTERS FINDING MORE EXCITEMENT IN THE BASEBALL WORLD SERIES AND THE START OF THE FOOTBALL SEASON, WHERE WINNERS LOOK HARDER TO IDENTIFY.

3. MONDALE CONTINUES TO LOOK LIKE A LOSER. HE LEADS AT PRESENT ONLY IN (PREDOMINANTLY BLACK) WASHINGTON DC AND IN HIS HOME STATE OF MINNESOTA. JACKSON HAS SO FAR FAILED TO DELIVER MASSIVE BLACK REGISTRATION, AND FERRARO TO DELIVER A HIGHER FEMALE VOTE. THE SINGLE GREATEST CHANGE OVER THE PAST FEW WEEKS IS THE WAY BUSH HAS LEAPED AHEAD OF FERRARO IN THE POLLS. BUT MOST POLLS SHOW HER MORE POPULAR THAN MONDALE, THOUGH LESS POPULAR THAN EITHER OF THEIR OPPONENTS: THE WORST OF ALL WORLDS. PUTTING HER ON THE TICKET BEGINS TO LOOK LIKE THE GIMMICK THAT FAILED.

4. THE REASONS FOR REAGAN'S LEAD REMAIN THE SAME AS THEY ALWAYS WERE. FIRST, THE ECONOMY. THE MAJORITY OF AMERICANS ARE BETTER OFF THAN THEY WERE FOUR YEARS AGO UNDER CARTER - UNDER CARTER - MONDALE AS THE REPUBLICANS NEVER FAIL TO POINT OUT. AND THE MAJORITY EXPECT THE NEXT FOUR YEARS TO BE BETTER FOR THEIR POCKETS UNDER REAGAN THAN UNDER MONDALE. IT WOULD BE UNPRECEDENTED FOR AMERICANS TO DISMISS A PRESIDENT WITH GROWTH IN THE ECONOMY AT ITS PRESENT LEVEL. SECONDLY, THE PRESIDENT'S PERSONALITY. THE POLLS SHOW THAT RESPECT FOR HIS LEADERSHIP QUALITIES IS DOUBLE THAT FOR MONDALE'S. REAGAN RADIATES OPTIMISM, PATRIOTISM, GOODWILL AND FAITH IN AMERICAN'S FUTURE: AMERICANS SEE THE BEST SIDE OF THEMSELVES REFLECTED IN HIS CHARACTER. THEY LIKE WHAT THEY SEE AND ARE LIKELY TO VOTE FOR IT. THIRDLY, THE ETHOS OF THE SUNBELT. AMERICA IS CHANGING: THE SUNBELT, WITH ITS EMPHASIS ON SUNRISE INDUSTRIES, SELF-RELIANCE

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AND NO UNIONS, REPRESENTS THE AMERICAN FUTURE. MONDALE AND FERRARO ARE APPEALING TO AMERICAN ATTITUDES, VALUES AND GEOGRAPHICAL INTERESTS DATING FROM THE PAST. THE PENDULUM MAY ONE DAY SWING BACK: BUT IT IS SWINGING AWAY FROM MONDALE AND FERRARO AT PRESENT.

5. OF COURSE, THERE ARE STILL SEVEN WEEKS TO GO. A LOT CAN HAPPEN IN THAT TIME. THE REPUBLICANS COULD BECOME COMPLACENT. THE TELEVISION DEBATES NOW FIXED FOR 7 AND 21 OCTOBER BETWEEN REAGAN AND MONDALE AND 11 OCTOBER FOR BUSH AND FERRARO MIGHT CHANGE PEOPLES PERCEPTIONS OF THE RACE. THE PRESIDENT'S HEALTH MIGHT BECOME AN ISSUE. THAT IS NO DOUBT WHY ONE OF THE WHITE HOUSE ADVISERS, WHOSE MAIN CONCERN IS WITH THE RISK OF AN OCTOBER SURPRISE, TOLD ME THE OTHER DAY THAT THEIR OWN PRIVATE POLLS WERE QUOTE FRIGHTENINGLY GOOD UNQUOTE.

6. BUT AS OF NOW THE FORECAST HAS TO BE A LANDSLIDE. THE INTERESTING QUESTIONS ARE THE COMPOSITION OF THE HOUSE AND SENATE. FEW OBSERVERS NOW THINK THE DEMOCRATS CAN WIN THE SIX EXTRA SEATS NEEDED FOR CONTROL OF THE SENATE. IN THE HOUSE, WHERE THE TRADITIONAL WISDOM HAS BEEN THAT THE DEMOCRAT MAJORITY WOULD GO UP, THERE IS NOW TALK OF POSSIBLE REPUBLICAN GAINS. BUT THE RE-ELECTION OF A SITTING PRESIDENT HAS NEVER THIS CENTURY - EVEN IN 1972 - BEEN ACCOMPANIED BY MORE THAN MODEST GAINS FOR HIS PARTY IN THE HOUSE. THE LANDSLIDE, IF IT HAPPENS, WILL BE MORE A PERSONAL THAN A PARTY TRIUMPH. THE SOPHISTICATED ARE ALREADY DISCUSSING THE 1988 RACE: ITS RUNNERS, ITS ISSUES.

FCO PLEASE PASS SAVING TO ALL SAVE U.S. POSTS

WRIGHT

(REPEATED AS REQUESTED)

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BY BAG

FM WASHINGTON

TO FCO TELNO. 24 SAVING OF 28 AUGUST 1984
INFO SAVING PARIS BONN ROME OTTAWA TOKYO UKREP BRUSSELS UKDEL OECD
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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MR GREEN B/ENGLAND

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SAVING TELEGRAM

BY BAG

FROM WASHINGTON

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TO FCO TELNO 23 OF 28 AUGUST 1984 AND
INFO SAVING NIO(L) AND (B), CGs in USA, UKDEL NATO, PARIS, BONN,
ROME, UKMIS NEW YORK, UKREP BRUSSELS, MOSCOW, PEKING

MY TELNO 2522: REPUBLICAN PARTY PLATFORM: FOREIGN POLICY

SUMMARY

1. The treatment of foreign and defence policy occupies one quarter of the platform. Little detail other than on the Americas. Problems generally seen through an East/West prism. Few major departures from current Administration policy.

DETAIL

(A) The Americas

2. The Americas are given pride of place in the foreign policy section, with a predictably heavy emphasis on Central America, the Caribbean and the Communist threat. Canada, Mexico and the whole of South America warrant only fleeting attention. The military action in Grenada is given low-key treatment but the platform sees "a profound moral difference between the use of force for liberation and the use of force for conquest and territorial expansion", and roundly endorses the Monroe Doctrine.

3. On Cuba, the document maintains that only American firmness will thwart Castro's attempts "to export terrorism and subversion, to destroy democracy and to smuggle narcotics into the US". There is no hint of future negotiations with Cuba, but a clear distinction is drawn between Castro's "brutal dictatorship" and the Cuban people.

4. The passages on Nicaragua pull few punches. The Sandinistas are accused of threatening their neighbours, persecuting their own people, and drug-smuggling. No mention is made of US or Contadora efforts towards a negotiated outcome, but further US assistance for the "democratic freedom fighters" is endorsed. The platform states that "Nicaragua cannot be allowed to remain a Communist sanctuary, exporting terror and arms throughout the region".

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Comment In the months ahead that statement will doubtless be interpreted many ways.

5. El Salvador, in contrast, is hailed as a success story, founded on US assistance in the tradition of Truman's post-war aid to Europe. But the platform notes that there too human rights and political reform are under Communist attack.

(B) Europe

6. The platform contains a welcome re-statement of America's vital interest in keeping Europe free of Soviet domination: the East/West and Alliance passages were reported and commented on in my telno 2509. There is a reference to resolving the Cyprus dispute as a matter of "highest priority" (and a clear statement of non-recognition of the TRSC), and an unexceptionable one-sentence reference to Northern Ireland, expressing concern for peace and justice in the Province and condemning violence and terrorism.

(C) Middle East

7. The platform breaks no new ground on the Middle East but generally reaffirms current US policy. No new preconditions are introduced for recognition of the PLO, although reference is made to its "homicidal subsidiaries". The moral and strategic relationship with Israel is endorsed and Israel's strength, backed by US assistance, is identified as the main bastion against Soviet domination of the region. There are pledges to help maintain Israel's military edge over its adversaries, and to support Israel's defence industry, but few hints about future US aid. Jerusalem is treated non-controversially: no mention is made of the US Embassy. Iran is all but ignored, although the President is praised for his crisis management throughout the Iran-Iraq war. Little mention is made of the Lebanon (and none of the marines). Syria is seen as increasingly subject to Soviet influence; but references to Libya are less hostile than might have been expected (and much less hostile than the references to Nicaragua).

(D) Asia and the Pacific

8. This section, except for the references to China and Hong Kong (covered in separate telegrams), follows established policy. East Asia is presented as an economic miracle, under threat from Soviet, North Korean and Vietnamese military aggression and intimidation. There are standard references to the build up of Soviet forces in the area, and use of chemical weapons in South East Asia and Afghanistan,

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pledges to continue support and humanitarian aid. Apart from a brief reference to maintaining security assistance to Pakistan there is no reference to the Subcontinent.

9. The passage on Japan reflects the Reagan/Nakasone rapport. Relations "have never been better ... We are heartened by Japan's increases in defence spending and urge Japan to further expand its contribution to the region's defence".

10. The relationship with Communist China is firmly predicated on shared opposition to Soviet expansionism. The platform language on Taiwan is in a lower key than in 1980. The Chinese not surprisingly reacted to the reference to the Taiwan Relations Act and the absence of references to the three US/PRC communiques, but neither this, nor the similar passage in the Democratic Party Platform, would in practice be likely to affect future US/China policy, which as currently established is broadly bipartisan.

11. There is a pledge to promote economic development and democratic principles in the Philippines, and a commitment to the continued security of Clark and Subic Bay bases.

(E) Africa

12. Africa is treated briefly and blandly, with no mention made of humanitarian issues. No effort is made to justify constructive engagement or to distinguish between Reagan and Carter policies in Southern Africa (apartheid is described as "repugnant"). No credit is taken for the Nkomati accord. /Current

Current US efforts on Namibia are endorsed but Crocker is likely to find the reference to "the expulsion of Cubans from occupied Angola" unhelpful.

(F) Foreign Assistance and International Organisations

13. For the most part, references to Foreign assistance are predictable, with the platform arguing that the central element should be "to share with others the beneficial ideas of democratic capitalism". Little is said about bilateral assistance other than a routine threat to reduce or eliminate it to nations with hostile foreign policies. There is a specific commitment to continue to provide necessary Security and Economic Assistance to Africa, and to encouraging African countries to reject Marxist systems.

14. On multilateral organisations, credit is taken for directing a larger proportion of IDA to Africa, but IDA is criticised for its alleged predilection for nations with state dominated economic systems, and the platform strongly supports the decision not to increase IDA funding. Somewhat surprisingly, the platform argues for the elimination of the US contribution to IFAD due to its "consistent bias towards non-market economies". The decision to leave UNESCO, "the worst of the UN organisations", is strongly supported and the UN is generally warned that the US will take a sharply critical attitude to policies not in the US interest. A commitment to stop multilateral funding of projects detrimental to the US economy sits oddly next to the statement that "the greatest danger today to our international trade is a growing protectionist sentiment".

15. The platform repeats the line recently taken by Congressman Kemp that austerity programmes of international organisations such as the IMF are undesirable: "austerity should be imposed not on people but on governments". The platform refers to the recently passed amendment in FY84 supplemental that US bilateral assistance should not be controlled by the policies of any particular multilateral institutions (US Treasury take the view that this language does not inhibit their normal wish to see US bilateral aid used in ways consistent with policy reforms supported by the IMF and IBRD).

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The reference to UNESCO forms part of a section which bluntly attacks international organisations, in particular the UN, which are accused of cynicism and double standards. There is a warning against UN involvement in Antarctica and outer space, and strong support for the President's "decisive rejection" of UNLOSC.

(G) Terrorism

17. Terrorism is described as a new form of warfare against democracies, and one used by the Soviet Union. "Combatting it requires an integrated effort of our diplomacy, armed forces, intelligence services, and law enforcement organisations".
The platform speaks of the need for consideration of preventive and pre-emptive actions.

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BY BAG

FROM WASHINGTON

TO PEO TEL NO. 25... SAVING OF 27 AUGUST 1984

cc: INFO SAVING: MAFF, DTI, TREASURY, DEPT OF ENERGY, DEPT OF
TRANSPORT, UKREP BRUSSELS, UMKIS GENEVA, BONN
PARIS, TOKYO

MY TELNO 2522: REPUBLICAN PARTY PLATFORM: INDUSTRIAL, AGRICULTURAL
AND INTERNATIONAL TRADE POLICY

SUMMARY

1. There are few surprises in the sections of the platform dealing with trade and industry, agriculture, energy, transportation, international economic issues and science and technology. The emphasis is on the achievements of the past four years. Proposals for the future contain no significant deviations from Administration policy and break little new ground. The emphasis is on free enterprise and deregulation (except in relation to agriculture, where greater prominence is given to continuing assistance for hard pressed farmers, whose votes are of course vital to the Republicans).

DETAIL

2. Trade Issues: The message is free and fair trade. In contrast to the slight equivocation of the Administration recently, prominence is given to a call for a new round of multilateral trade negotiations "to revive and strengthen the GATT", and eliminate unfair trade practices and non-tariff barriers in particular in the fields of agriculture, services and investment. There is no specific reference to recent trade cases: but existing trade laws will be enforced vigorously so as "to avoid loss of US jobs to subsidised overseas competitors", especially in basic industries such as steel, automobiles, footwear, mining and textiles. (The section on agriculture refers to Administration opposition to draft protectionist legislation on automobile domestic content, which the agricultural lobbies dislike.) A Republican Administration would work to end the process whereby overseas industries which compete unfairly are subsidised by international institutions dependent on US taxes. A reference to the possible "reorganisation of trade responsibility in order to reduce overlap" is the only sign of continuing interest in a merger between the Department of Commerce and the United States Trade Representative's Office.

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3. In a brief reference to export controls, (which contrasts sharply with the subsequent passage on agriculture) US trading partners are asked to join in "a review of trade with totalitarian regimes".

4. Agriculture: The party's objective is creation of an environment in which farmers can compete fairly. But farmers at present are still grappling with major problems, notably indebtedness. These are attributed in the first place to Carter Administration policies, although high interest rates and the high value of the dollar have also had a devastating effect on US agricultural competitiveness (an admission which contrasts sharply with other sections of the platform). The farm economy is now reviving thanks to Administration policies. Credit is taken for increases in food assistance and agricultural export financing programmes, and the fact that the Administration has challenged the "unfair subsidy programmes of other governments". The main promises for the future are:-

- i) Consideration of temporary interest rate reductions;
- ii) Continuation of targetted farm support;
- iii) Implementation of restructuring of farm debt procedures, including establishment of local advisory committees to help with restructuring;
- v) A pledge never to use agricultural embargoes as a foreign policy tool; and
- vi) Support for legislation to allow farmers to deduct 50 percent of medical insurance premiums from income.

5. Energy: US policies have helped precipitate the 35 percent drop in real oil prices since 1980, and the crippling of OPEC. The agenda set in 1980 will be completed. Natural gas should be decontrolled. Emphasis is laid on the development of hydro-carbon resources and bringing nuclear plants on line quickly, with only a nod in the direction of environmentalist concerns. The (probably unrealistic) 1980 commitment to "terminate" the Department of Energy is reiterated.

6. The platform has little specific to say about civil aviation and shipping; there is a general reaffirmation of the Administration's belief in deregulation and the free market.

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7., Federal spending on basic research in science and technology has increased more than 50 percent. Tax relief for private sector research and development should be extended. US firms will be allowed to "cooperate in joint research and development projects" (presumably without fear of antitrust action) so that they can compete with foreign companies.

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TO ROUTINE FCO

TELEGRAM NUMBER 2522 OF 25 AUGUST

INFO SAVING ALL CG'S IN USA, ANKARA ATHENS BRUSSELS BONN
COPENHAGEN LISBON LUXEMBOURG OTTAWA OSLA PARIS ROME REYKJAVIK
THE HAGUE UKDEL NATO UKDEL VIENNA MADRID DUBLIN UKREP BRUSSELS
BIS NEW YORK MOSCOW TOKYO PEKING

REPUBLICAN NATIONAL CONVENTION

SUMMARY

1. FEW SURPRISES IN DALLAS, AND NATIONAL IMPACT PROBABLY NOT GREAT. BUT THE PRESIDENT'S REAFFIRMATION OF THE SUN BELT FAITH WILL HAVE SATISFIED THE ACTIVISTS. THE YOUNG TURKS HAD THEIR SAY, PARTICULARLY ON THE PLATFORM. BUT CONTINUITY, NOT RADICAL CHANGE, WAS THE DOMINANT THEME.

DETAIL

A. THE CONVENTION PROCEEDINGS

2. WITH THE NOMINATION OF BOTH PRESIDENTIAL AND VICE-PRESIDENTIAL CANDIDATES LOCKED UP IN ADVANCE, THE CONVENTION INEVITABLY BECAME SOMETHING OF A RITUAL SET-PIECE. THE PRESIDENT'S SPEECH APART, THE ORATORY FELL WELL BELOW THE STANDARD SET AT SAN FRANCISCO (E.G. BY CUOMO): AND THERE WERE - INEVITABLY - NO EXCITEMENTS TO COMPARE WITH THE TENSION BEFORE THE HART OR, JACKSON SPEECHES THERE, OR THE EXUBERANCE OVER FERRARO. ON THE LAST TWO DAYS THE PROCEEDINGS IN DALLAS WERE CONFINED TO SHORT EVENING SESSIONS GEARED TO PRIME TIME TELEVISION. BUT MOST OF THE DELEGATES HAD COME ONLY TO SEE THE PRESIDENT'S RE-CORONATION. HIS ACCEPTANCE SPEECH (SEE MIFT, NOT TO ALL) DID NOT DISAPPOINT THEM. AND THE RISK THAT DISAGREEMENTS OVER THE PLATFORM, OR JOCKEYING AMONG THE POTENTIAL CONTENDERS FOR 1988, MIGHT DISRUPT THE CONVENTION WAS AVOIDED. THE PRESIDENT WENT TO DALLAS 15 POINTS AHEAD IN MOST POLLS: IT SEEMS UNLIKELY THAT THE LEAD HAS NARROWED AS A RESULT OF THE CONVENTION.

B. THE PLATFORM

4. THE POLITICAL DEBATE A WEEK EARLIER, DURING THE HEARINGS ON THE PARTY PLATFORM, WAS FAR LIVELIER THAN ANYTHING THAT HAPPENED DURING THE CONVENTION. THE DOCUMENT AS APPROVED IS A VICTORY FOR THE HARD-LINE SUPPLY-SIDERS ON ECONOMIC POLICY, AND FOR THE HARD RIGHT ON SOCIAL ISSUES. IT SETS ITS FACE AGAINST TAX INCREASES, AND CONGRESSMAN LOTT, THE PLATFORM COMMITTEE CHAIRMAN, AND OTHER HOUSE REPUBLICANS HAVE PLEDGED THEMSELVES TO VOTE AGAINST ANY PROPOSALS FOR AN INCREASE NEXT YEAR. THE FOREIGN POLICY SECTION IS MORE BALANCED, AS ARE THE PASSAGES ON TRADE AND AGRICULTURAL POLICY. ON THE SOCIAL SIDE, AS IN 1980, THE ABSENCE OF A REFERENCE TO THE EQUAL RIGHTS AMENDMENT, HAS DISAPPOINTED MANY REPUBLICAN WOMEN. THE PLATFORM OPPOSES ABORTION AND SUPPORTS PRAYER IN SCHOOLS. MODERATE REPUBLICANS, REALISING THAT THEY

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WERE BADLY OUTNUMBERED AMONG CONVENTION DELEGATES, DECIDED NOT TO CHALLENGE THE PLATFORM IN FLOOR DEBATE BUT THEIR DISSATISFACTION WAS GIVEN A FULL AIRING ON TELEVISION AND IN THE PRESS BY MEDIA STARVED OF ANY GENUINE NEWS.

5. SENATOR LAXALT (GENERAL CHAIRMAN OF THE REAGAN/BUSH CAMPAIGN AND OF THE PARTY), JAMES BAKER (WHITE HOUSE CHIEF OF STAFF) AND OTHERS HAVE MADE CLEAR OVER THE LAST WEEK THAT THE PRESIDENT WILL NOT FEEL QUOTE LOCKED IN UNQUOTE BY THE PLATFORM. AS BAKER SAID, HE IS QUOTE NOT UNCOMFORTABLE UNQUOTE AND QUOTE GENERALLY AGREES UNQUOTE WITH IT BUT, WHERE THE PLATFORM IS NOT CONSISTENT WITH HIS POLICIES, HE WILL RUN ON THE LATTER. THIS WEEK THE SPEECHES OF THE PRESIDENT, VICE PRESIDENT AND OTHERS HAVE STRESSED THE THEME OF CONTINUITY, NOT RADICAL CHANGE. ASKED HOW LONG PEOPLE WOULD PAY ATTENTION TO THE PLATFORM, SENATOR DOLE SAID, QUOTE ABOUT AS LONG AS IT TAKES TO PACK UNQUOTE.

6. FOR ALL THIS, THERE CAN BE NO DOUBT THAT THE PLATFORM SUCCESSES OF THE SUPPLY-SIDERS WILL MAKE IT MORE DIFFICULT, THOUGH NOT OF COURSE IMPOSSIBLE, FOR THE PRESIDENT TO DEAL EFFECTIVELY WITH THE DEFICIT IN A ~~SECOND TERM~~. THE CONTRADICTORY PRESSURES MAY NOT, HOWEVER, HAVE CHANGED DRASTICALLY AS A RESULT OF THE CONVENTION. THE PRESIDENT'S PERSONAL OBJECTIVE OF REDUCING THE TAX BURDEN HAS NEVER BEEN IN DOUBT, AND NO-ONE HAD EVER THOUGHT THAT A DECISION TO RAISE TAXES WOULD BE EASY FOR HIM. IN HIS OWN SPEECH HE AGAIN REFERRED TO RAISING TAXES AS A LAST RESORT MEASURE: HE THUS RETAINS AT LEAST IN PRINCIPLE, THE FLEXIBILITY WHICH IS ABSENT FROM THE PLATFORM. MONDALE WILL NO DOUBT CONTINUE TO PRESS HIM TO BE SPECIFIC.

7. DETAILED COMMENTS ON THE PLATFORM ARE IN MY TEL NO 2509, AND THREE SAVINGRAMS (NOT TO ALL).

C. THE PARTY STANCE

8. WHATEVER ITS PRACTICAL EFFECT, THE PLATFORM DOES CONFIRM THE DIRECTION THE PARTY HAS TAKEN SINCE 1980: GOLDWATER WAS RECEIVED WITH ACCLAIM IN DALLAS. BUT PUBLIC OPINION POLLS, AND VOTER REGISTRATION FIGURES SHOW THAT THE COUNTRY AS A WHOLE HAS BEEN MOVING IN THE SAME DIRECTION IN RECENT YEARS. THE REPUBLICAN PARTY HAS BENEFITTED FROM THIS RIGHTWARD SHIFT, AND ITS CENTRE OF GRAVITY HAS PROBABLY NOT MOVED TOO FAR RIGHT TO DISCOURAGE IT OR TO LEAVE A SIGNIFICANT GAP IN THE CENTRE OF THE POLITICAL SPECTRUM.

9. MANY CONVENTION SPEAKERS, INCLUDING THE PRESIDENT, MADE AN OPEN PITCH FOR THE HEARTS, MINDS AND VOTES OF DEMOCRATS. AS BEFORE, REAGAN CONTINUES TO MAKE FULL USE OF THE VOCABULARY AND NAMES OF ROOSEVELT AND TRUMAN: AND THE EVIDENCE IS THAT THIS APPEAL SUCCEEDS. WHILE THE STRIDENT RIGHT OF MANY DALLAS SPEECHES SUGGESTS A PARTY STILL LACKING IN SELF-CONFIDENCE ABOUT ITS IDENTITY, INTROSPECTION CAN BE AVOIDED WHILE A POPULAR PRESIDENT RIDES HIGH IN THE POLLS.

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D. THE CLASS OF '88

10. WITH THE 1984 NOMINATION DECIDED IN ADVANCE, MUCH SPECULATION WAS RESERVED FOR THE 1988 RACE. VICE PRESIDENT BUSH HAD A GOOD CONVENTION. DESPITE HIS PRE-1980 RECORD, WHICH MUST LOOK SUSPICIOUSLY LIBERAL TO THE PARTY MAINSTREAM NOW, HE HAS WON RESPECT FOR HIS LOYALTY TO THE PRESIDENT AND HIS ABILITY TO SELL ADMINISTRATION POLICIES, AT HOME AND ABROAD. HE CAN NEVER BE THE RIGHT WING'S FAVOURITE SON, BUT REMAINS TOP OF THE POLLS. CONGRESSMAN JACK KEMP, WHO DRAFTED THE FOREIGN POLICY SECTION OF THE PLATFORM AND WAS A MAJOR INFLUENCE ON THE ECONOMIC SECTIONS, ALSO IMPROVED HIS POSITION IN THE 1988 STAKES. HIS SPEECH ON 21 AUGUST WAS ONE OF THE FEW RECEIVED WITH GENUINE ENTHUSIASM. SENATORS BAKER AND DOLE GAVE LACKLUSTRE PERFORMANCES, AND THEIR ODDS MAY HAVE LENGTHENED. AND ALTHOUGH, IF SHE REMAINS A DEMOCRAT, MRS KIRKPATRICK COULD NOT BE A CANDIDATE, HER PERFORMANCE CERTAINLY CONFIRMED HER POPULAR APPEAL AMONG REPUBLICANS.

E. CONCLUSION

11. ALL IN ALL, A GOOD CONVENTION FOR THE REPUBLICANS. THE MOOD IN DALLAS WAS CONFIDENT, BUT NOT COMPLACENT: THE ABSENCE OF FIREWORKS WAS PROBABLY ON BALANCE BENEFICIAL: AND THE PRESIDENT'S AUTHORITY WAS RINGINGLY RE-ENDORSED. THE PLATFORM WOULD NOT SERIOUSLY INCOMMUNE HIM, OTHER THAN ON TAX, AND THE PARTY'S EVIDENT MOVE TO THE RIGHT WILL PROBABLY NOT WEAKEN HIS PERSONAL SUPPORT IN MIDDLE AMERICA.

12. SEE MIFT (NOT TO ALL)

FCO PLEASE PASS SAVINGS TO - ANKARA ATHENS BRUSSELS BONN
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THE HAGUE UKDEL NATO UKDEL VIENNA MADRID DUBLIN
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FM WASHINGTON 240030Z AUG 84
TO PRIORITY FCO

TELEGRAM NUMBER 2509 OF 23 AUGUST

AND TO PRIORITY MODUK

INFO BONN PARIS ROME UKDEL NATO MOSCOW UKDEL VIENNA UKDIS
GENEVA UKMIS NEW YORK

INFO SAVING OTHER NATO AND EC POSTS

YOUR TEL NO 1481: **REPUBLICAN PARTY PLATFORM: EAST-WEST
RELATIONS, DEFENCE AND ARMS CONTROL**

SUMMARY

1. **EMPHASIS ON CONTINUING NEED FOR US STRENGTH. ANTI-SOVIET TONE.** REFERENCES TO THE NEED FOR US **QUOTE TECHNOLOGICAL UNQUOTE AND
QUOTE QUALITATIVE UNQUOTE SUPERIORITY.** BUT NO REPETITION OF
THE 1980 CALL FOR OUTRIGHT **QUOTE US MILITARY SUPERIORITY UNQUOTE**
OVER THE SOVIET UNION. AND **BALANCING PASSAGES ON THE IMPORTANCE OF
ARMS CONTROL AND DESIRABILITY OF STABLE AND PEACEFUL RELATIONS
WITH THE SOVIET UNION.**

DETAIL

2. THE REPUBLICAN PLATFORM APPROVED IN DALLAS ON 21 AUGUST DEFINES
THE PURPOSE OF US FOREIGN POLICY AS TO MAINTAIN FREEDOM IN A
PEACEFUL INTERNATIONAL ENVIRONMENT, WITH THE UNITED STATES AND ITS
ALLIES SECURE AGAINST MILITARY THREATS AND DEMOCRATIC COUNTRIES
ENJOYING INCREASING PROSPERITY.

3. THE PLATFORM REAFFIRMS THE 1980 PRINCIPLE THAT THE US NATIONAL
SECURITY STRATEGY SHOULD BE ONE OF PEACE THROUGH STRENGTH,
TO BE ACHIEVED BY MAINTAINING US TECHNOLOGICAL SUPERIORITY,
DESCRIBED AS THE HISTORICAL FOUNDATION OF DETERRENCE. THE US
SHOULD ALSO CONTINUE **QUOTE TO STRIVE FOR QUALITATIVE SUPERIORITY
UNQUOTE...** **QUOTE IN OTHER AREAS, SUCH AS US MARITIME FORCES
UNQUOTE.** EVERYTHING SHOULD BE DONE TO ENSURE THAT, IN CASE OF
CONFLICT, THE UNITED STATES WOULD CLEARLY PREVAIL. **QUOTE WE SHALL
KEEP THE PEACE BY KEEPING OUR COUNTRY STRONGER THAN ANY
POTENTIAL ADVERSARY UNQUOTE.**

EAST-WEST RELATIONS

4. THE **QUOTE PROFOUND MORAL DIFFERENCE UNQUOTE** BETWEEN DEMOCRACY
AND MARXIST/LENINISM, AND BETWEEN CAPITALISM AND STATE-DOMINATED
ECONOMIC SYSTEMS, IS STRESSED THROUGH OUT THE PLATFORM. THE SOVIET
UNION'S **QUOTE GLOBALIST IDEAOLOGY AND ITS LEADERSHIP OBSESSED
WITH MILITARY POWER MAKE IT A THREAT TO FREEDOM AND PEACE ON EVERY
CONTINENT UNQUOTE.** THE PLATFORM DECLARES **QUOTE SOLIDARITY WITH THE
PEOPLE OF EASTERN EUROPE AND ALL CAPTIVE NATIONS WHO STRUGGLE
DAILY AGAINST THEIR SOVIET MASTERS ... WE ARE NOT NEUTRAL IN THEIR
STRUGGLE. UNQUOTE**

RESTRICTED

15.

5. THE PLATFORM ALSO ACKNOWLEDGES, HOWEVER, THAT STABLE AND PEACEFUL RELATIONS WITH THE SOVIET UNION ARE QUOTE POSSIBLE AND DESIRABLE UNQUOTE. MAINTAINING THE CREDIBILITY OF AMERICAN STRENGTH AND DETERMINATION IS SEEN AS A PRECONDITION: THE WANING OF US POWER IN THE 1970S WAS EXPLOITED BY THE RUSSIANS: A RESURGENCE SINCE 1980 IS SEEN AS A MAJOR REAGAN ACHIEVEMENT, PROVIDING THE RIGHT BASIS FOR A BETTER EAST/WEST WORKING RELATIONSHIP.

6. ARMS CONTROL

THE PLATFORM STRESSES THAT US MILITARY STRENGTH EXISTS TO DETER CONFLICT, NOT INITIATE WAR. WHILE CONTINUING TO MODERNISE THE US DETERRENT CAPABILITY, THE US WILL ALSO NEGOTIATE FOR VERIFIABLE ARMS CONTROL, WHICH QUOTE THOUGH NOT AN END IN ITSELF CAN BE A MAJOR COMPONENT OF A FOREIGN AND DEFENCE POLICY WHICH KEEPS AMERICA FREE, STRONG, AND INDEPENDENT. UNQUOTE. THE REAGAN ADMINISTRATION IS DESCRIBED AS ALREADY PURSUING, WITH FLEXIBILITY AND FROM A POSITION OF STRENGTH, ARMS CONTROL AGREEMENTS THAT WOULD REDUCE THE LEVEL OF NUCLEAR WEAPONRY POSSESSED BY THE SUPERPOWERS. BUT AGREEMENTS WITH THE SOVIET UNION ARE NOT BE SOUGHT AT ANY PRICE, AND MUST BE FULLY VERIFIABLE, AND CONTAIN SUITABLE SANCTIONS FOR NON-COMPLIANCE. THE SOVIET UNION IS SAID TO HAVE ENGAGED IN A SUSTAINED PATTERN OF VIOLATION OF EXISTING ARMS CONTROL AGREEMENTS, THEREBY CASTING SEVERE DOUBT ON ITS WILLINGNESS TO NEGOTIATE AND COMPLY WITH NEW AGREEMENTS IN A SPIRIT OF GOOD FAITH.

NATO

7. THE US MILITARY PRESENCE IN EUROPE 40 YEARS AFTER D-DAY IS DESCRIBED AS QUOTE A LONG WATCH, BUT A SUCCESSFUL ONE UNQUOTE. THE PLATFORM POINTS OUT THAT THE US WOULD BE IN MORTAL DANGER WERE WESTERN EUROPE TO COME UNDER SOVIET DOMINATION, AND THAT THE FRAGMENTATION OF THE ATLANTIC ALLIANCE IS A KEY SOVIET OBJECTIVE. QUOTE THE UNITED STATES AGAIN LEADS THE ALLIANCE BY OFFERING HOPE OF A SAFER FUTURE. AS AMERICA'S STRENGTH IS RESTORED, SO IS OUR ALLIES' CONFIDENCE IN THE FUTURE OF FREEDOM. UNQUOTE. ON BURDEN-SHARING, THE PLATFORM SAYS ONLY THAT THE ALLIES SHOULD BE ENCOURAGED TO INCREASE THEIR CONTRIBUTION TO NATO'S COMMON DEFENCE (A RELATIVELY MILD FORMULATION).

8. IMPROVEMENTS IN THE READINESS AND SUSTAINABILITY OF US FORCES, AND RECRUITMENT AND RETENTION OF MILITARY PERSONNEL, ARE STRESSED. THE PLATFORM ALSO CLAIMS - NO DOUBT BECAUSE OF ATTACKS BY MONDALE - THAT GREATER ECONOMY AND EFFICIENCY HAS BEEN ACHIEVED IN DEFENCE PROCUREMENT. THERE IS A REFERENCE TO INCREASED COOPERATION WITH THE ALLIES, WHICH HAS RESTRICTED TRANSFER OF CRITICAL TECHNOLOGIES TO THE SOVIET UNION.

9. THE PLATFORM EXPRESSES ENTHUSIASTIC SUPPORT FOR SDI.

QUOTE RECOGNISING THE NEED FOR CLOSE CONSULTATION WITH OUR ALLIES, WE SUPPORT A COMPREHENSIVE AND INTENSIVE EFFORT TO RENDER OBSOLETE THE DOCTRINE OF MUTUAL ASSURED DESTRUCTION (MAD) UNQUOTE AND QUOTE REJECT THE STRATEGY OF DESPAIR AND SUPPORT INSTEAD THE STRATEGY OF HOPE AND SURVIVAL UNQUOTE.

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DEFENCE

DEFENCE SPENDING

10. THE PLATFORM DRAWS ATTENTION TO DEFENCE BUDGET INCREASES SINCE 1980, STATES THAT QUOTE WE MUST CONTINUE TO DEVOTE THE RESOURCES ESSENTIAL TO DETER THE SOVIET THREAT UNQUOTE, WHICH IS ALSO SEEN AS GROWING: BUT NOTABLY DOES NOT INCLUDE ANY PLEDGE OR TARGET FOR FUTURE INCREASES. INDEED, IT NOTES, DEFENSIVELY, THAT DEFENCE'S CURRENT SHARE OF TOTAL BUDGET EXPENDITURE IS WELL BELOW EISENHOWER/KENNEDY LEVELS.

INTELLIGENCE

11. THE PLATFORM CONTAINS A PLEDGE QUOTE TO CONTINUE TO STRENGTHEN OUR INTELLIGENCE SERVICES UNQUOTE ... AND QUOTE REMOVE STATUTORY OBSTACLES TO THE EFFECTIVE MANAGEMENT, PERFORMANCE AND SECURITY OF INTELLIGENCE SOURCES AND METHODS UNQUOTE

COMMENT

12. IT IS NOT SURPRISING THAT THIS TEXT, WHICH IS PREPARED UNDER PARTY NOT ADMINISTRATION AEGIS, AND IN CONTACT WITH, BUT NOT UNDER CONTROL FROM, THE WHITE HOUSE, SHOULD DIFFER IN SOME RESPECTS FROM THE ADMINISTRATION'S PUBLIC POSITIONS. IT REFLECTS GRASSROOTS FEELINGS IN THE PARTY. BUT IT WOULD IN NO WAY BIND THE PRESIDENT.

13. IN THE AREA OF DEFENCE AND SECURITY THE MAIN SIMILARITY WITH THE 1980 TEXT IS THAT WORLD PROBLEMS ARE AGAIN VIEWED MORE OR LESS EXCLUSIVELY IN TERMS OF SUPERPOWER COMPETITION. THE DOMINANT THEME IS AGAIN THE NEED FOR CONTINUED US MILITARY POWER AND NATIONAL WILL TO MEET THE THREAT OF SOVIET EXPANSIONISM.

14. BUT THERE ARE NOTICEABLE CHANGES C.F. 1980. THE TREATMENT OF EAST/WEST RELATIONS AND ARMS CONTROL IS LESS COMBATIVE. THERE IS NO REFERENCE TO OUTRIGHT MILITARY SUPERIORITY AS AN AIM. SDI APART, THERE IS NO SHOPPING LIST OF FUTURE NEW WEAPONS SYSTEMS. THE LANGUAGE ON FUTURE LEVELS OF DEFENCE SPENDING IS CAUTIOUS. AND THERE IS NO ECHO OF THE 1980 REFERENCES TO WESTERN EUROPEAN QUOTE NEUTRALISM UNQUOTE. THE TONE OF THE PASSAGES ON SOVIET BLOC HUMAN RIGHTS VIOLATIONS IS NO MORE THAN ONE WOULD EXPECT, WHILE THERE ARE BALANCING REFERENCES TO ARMS CONTROL AND TO THE DESIRABILITY OF CONDUCTING A STABLE AND PEACEFUL RELATIONSHIP WITH THE SOVIET UNION.

15. REPORTS ON REMAINING SECTIONS, AND OVERALL COMMENTS, FOLLOW. FULL TEXT HAS BEEN SENT TO NAD.

FCO PASS SAVING TO ANKARA OTTAWA LISBON OSLO REYKJAVIK MADRID ATHENS BRUSSELS COPENHAGEN DUBLIN LUXEMBOURG THE HAGUE UKREP BRUSSELS

HANNAY

REPEATED AS REQUESTED

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TO PRIORITY FCO

TELEGRAM NUMBER 2223 OF 21 JULY

INFO SAVING HM CONSULATES GENERAL IN THE US, EC POSTS, NATO POSTS
AND EAST EUROPEAN POSTS

PRESIDENTIAL ELECTION: DEMOCRATIC CONVENTION

1. THE DEMOCRATS HAD A GOOD CONVENTION IN PARTY TERMS. THEY EMERGED FROM IT MORE UNITED, MORE CHEERFUL AND WITH MORE FIRE IN THEIR BELLIES THAN WHEN THEY WENT IN. BUT NOW THAT THE TUMULT AND THE SHOUTING HAVE DIED IN SAN FRANCISCO, IT IS TIME TO TRY AND SIFT THE EPHEMERAL AND THE EUPHORIC FROM THE CONTINUING REALITIES OF ELECTORAL ARITHMETIC AND NATIONAL MOOD.
2. THE FIRST POINT TO STRESS IS THAT WITH THE NOMINATION OF MONDALE (MINNESOTA) AND FERRARO (NEW YORK) TO RUN AGAINST REAGAN (CALIFORNIA) AND BUSH (TEXAS) WE HAVE A STRAIGHT FROSTBELT VERSUS SUNBELT, SMOKE STACK VERSUS SUNRISE INDUSTRY TICKET. THIS MUST WORK AGAINST THE DEMOCRATS IN SEVERAL WAYS. FIRST, THE POPULATION CENTRE OF THE UNITED STATES IS MOVING STEADILY WEST AND SOUTH: IT CROSSED THE MISSISSIPPI IN 1982. DEMOGRAPHY IS AGAINST THE MONDALE/FERRARO TICKET.
3. SECONDLY, THE ETHOS OF THE SUNBELT, WITH ITS EMPHASIS ON OPPORTUNITY, SELF-RELIANCE AND NON-UNIONISATION, IS RADICALLY DIFFERENT FROM THE ETHOS OF THE FROSTBELT WITH ITS EMPHASIS ON COLLECTIVE RESPONSIBILITY, UNION MEMBERSHIP AND HIGH GOVERNMENT SPENDING, A VARIANT OF CHURCHILL'S 1951 CHOICE BETWEEN LADDERS AND QUEUES. THE VALUES OF THE DEMOCRATS ARE ROOTED IN THE PAST, WHICH IS ONE REASON WHY HART, A SUNBELT DEMOCRAT FROM COLORADO, FAILED TO CAPTURE THE MOOD OF THE CONVENTION WITH HIS APPEAL FOR NEW POLICIES. THE UNIONS WISELY KEPT A LOW PROFILE AT SAN FRANCISCO. SO LONG AS THE REAL ECONOMY POWERS AHEAD, AND DESPITE THE WARNING OF THE FINANCIAL MARKETS ITS SHOW NO SIGN OF FALTERING BEFORE NOVEMBER- THE MOOD OF THE COUNTRY IS AGAINST THE MONDALE/FERRARO TICKET.
4. THERE WERE, OF COURSE, A NUMBER OF BREAK-THROUGHS NOTABLY THE CHOICE OF GERALDINE FERRARO AS MONDALE'S RUNNING MATE. TO HAVE A WOMAN ON THE PRESIDENTIAL TICKET IS AN ADVANCE AND THE WOMEN'S MOVEMENT IS DELIGHTED. BUT IT IS REALLY NO BIG DEAL. THERE ARE WOMEN SENATORS AND REPRESENTATIVES, ONE WOMAN GOVERNOR AND A WOMAN ON THE SUPREME-COURT. IF THERE HAS SO FAR BEEN NO WOMAN PRESIDENTIAL CANDIDATE IT IS BECAUSE SO FAR THERE HAS BEEN NO WOMAN WITH THE AMBITION, SINGLENESS OF MIND, TIME AND ENERGY TO SUBMIT TO THE GRUELLING PROCESSES OF PRESIDENTIAL CANDIDATURE. IN TIME THERE WILL BE AND FERRARO WILL HAVE SHOWN THEM THE WAY. BUT THAT IS FOR THE FUTURE.
5. MEANWHILE THERE IS THE GENDER GAP. MORE WOMEN FAVOUR MONDALE THAN REAGAN AND IN A COUNTRY WHERE THE TURNOUT IS APPALLINGLY LOW (A LITTLE OVER 50 PERCENT) THE MOBILISATION OF THE WOMEN'S VOTE

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/vote

COULD REPRESENT A CONSIDERABLE BONUS FOR THE DEMOCRATS. AS AGAINST THAT, THERE WILL BE A PARTIAL MOBILISATION OF THE MALE CHAUVINIST PIG VOTE AGAINST FERRARO. SOME BASIC LACK OF INTEREST BY WOMEN IN POLITICAL ISSUES IS DEMONSTRATED BY THEIR PROVIDING THE LARGER PROPORTION OF "DON'T KNOWS" IN PUBLIC OPINION POLLS. MOREOVER THE MONDALE CAMP CAN NOT ALLOW THEIR PRESIDENTIAL CANDIDATE TO BE OUTSHONE AT THE HUSTINGS BY THE VICE-PRESIDENTIAL NOMINEE. SO A CONSIDERED VERDICT MUST BE THAT FERRARO WILL BE A HELP ON THE TICKET BUT NOT A DECISIVE ONE.

6. THE SECOND IMPORTANT BREAKTHROUGH HAS BEEN FOR THE BLACKS BY JESSE JACKSON. BLACKS ARE ALMOST 100 PERCENT DEMOCRAT BUT HAVE BEEN THE MOST APATHETIC OF ALL THE MINORITIES. JACKSON HAS SUCCEEDED IN GETTING MORE TO REGISTER AND MAY WELL SUCCEED IN GETTING MORE TO VOTE. BUT WHEREAS WOMEN, ALTHOUGH CURIOUSLY CONSIDERED A MINORITY IN POLITICAL TERMS, IN FACT REPRESENT OVER 50 PERCENT OF THE ELECTORATE, THE BLACKS ARE A GENUINE MINORITY, REPRESENTING ONLY ABOUT 11 PERCENT OF THE ELECTORATE. THEY COULD MAKE A USEFUL DIFFERENCE FOR THE DEMOCRATS. BUT EVEN THIS IS NOT WITHOUT ITS PITFALLS. AN UGLY FEATURE AT SAN FRANCISCO WAS THE SIGHT AND SOUND OF JACKSON'S RADICALISED BLACKS BOOING ANDY YOUNG, THE BLACK MAYOR OF ATLANTA, WHO HAS COME UP THE ALTERNATIVE WAY OF APPEALING TO BLACK AND WHITE VOTERS ALIKE. SO THE MORE JACKSON MOBILISES THE BLACKS, THE GREATER THE LIKELIHOOD OF A WHITE BACKLASH, PARTICULARLY IN THE SOUTH AND OF A JEWISH BACKLASH IN THE EASTERN CITIES. THE MONDALE/FERRARO TICKET LOOKS IN FACT TO BE A RECIPE FOR LOSING THE SOUTH FOR THE DEMOCRATS. THE CHANCES OF DEMOCRATIC GOVERNOR HUNT OF NORTH CAROLINA BEATING THE INCUMBANT REPUBLICAN SENATOR JESSE HELMS MUST THEREBY BE LESSENED.

7. THE DEMOCRATS ARE NOT FINDING IT EASY TO IDENTIFY THE MAIN ISSUES FOR THEIR CAMPAIGN ON WHICH THEY CAN HOPE TO GET OUT NOT ONLY THEIR OWN VOTE BUT THE ALL-IMPORTANT UNCOMMITTED. THE ECONOMY OFFERS LITTLE, ALTHOUGH THE BUDGET DEFICIT AND "FAIRNESS" ARE BEING WELL-WORKED: AND KENNEDY'S LINE THAT ANOTHER 1929 COULD BE JUST AROUND THE CORNER MAY EMERGE MORE AS TIME GOES ON. THE TEFLON FACTOR HAS SO FAR MADE ATTACKS ON REAGAN'S AGE AND COMPETANCE FAIL TO STICK. THE PARTIES AGREE THAT AMERICA MUST BE STRONG: THEY DISAGREE ONLY ON "LOW STRONG" SO THE ABSENCE OF REALLY ATTRACTIVE DEMOCRATIC THEMES IS DRIVING THEM, IN THE TEETH OF MOST CONVENTIONAL WISDOM, TO EMPHASISE FOREIGN POLICY ISSUES. AND ON SEVERAL OF THESE THE PRESIDENT, WITH HIS ACCEPTANCE OF TALKS WITH THE RUSSIANS ON ARMS CONTROL IN SPACE, AND SHULTZ, WITH THE INITIATION OF A NEGOTIATING PROCESS IN CENTRAL AMERICA, HAVE MOVED ALREADY TO DRAW THE STING OF THE DEMOCRATIC ATTACK.

8. THE REPUBLICANS HAVE YET TO LAUNCH THEIR COUNTER-OFFENSIVE. IT WILL BE A CONTEST BETWEEN TWO NICE GUYS, BUT BETWEEN ONE WITH CHARISMA AND ONE WITHOUT: BETWEEN ONE WHO IS THE INCUMBENT WITH THE MOOD OF AMERICA STILL ON THE WHOLE WITH HIM AND A CHALLENGER SUMMONING UP THE SPIRIT OF THE PAST: BETWEEN A MASTER OF TELEVISION AND AN APPRENTICE IN THAT ART: BETWEEN A PARTY OF NATURAL MINORITY WITH THE MONEY AND THE TECHNIQUE TO GET OUT ITS VOTE AND A PARTY OF NATIONAL MAJORITY WITH A PROVEN CAPACITY TO POLL UNDER ITS STRENGTH.

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9. TO SUM UP, I SEE NO REASON TO QUARREL WITH THE 'ECONOMIST'S' VERDICT THAT CALCULATIONS FOR A DEMOCRATIC VICTORY TURN ON MISFORTUNE STRIKING REAGAN, NONE ON ENTHUSIASM FOR MONDALE INFECTING THE ELECTORATE AT LARGE. SAN FRANCISCO HAS MADE IT AT LEAST A TWO-HORSE RACE: BUT REAGAN MUST STILL BE FAVOURITE TO WIN IN NOVEMBER.

FCO PASS SAVING TO:

ANKARA ATHENS BRUSSELS BONN COPENHAGEN LISBON LUXEMBOURG OTTAWA
OSLO PARIS ROME REYKJAVIK THE HAGUE UKDEL NATO UKDEL VIENNA MADRID
DUBLIN UKREP BRUSSELS BELGRADE EAST BERLIN BUDAPEST SOFIA PRAGUE
BUCHAREST MOSCOW WARSAW.

WRIGHT

FCO WHITEHALL

NAD

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GR 220
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FM WASHINGTON 081930Z
TO PRIORITY FCO
TELEGRAM NUMBER 816 OF 8 MARCH 1984

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US ELECTIONS: GARY HART

1. IN AMERICA ABOVE ALL PLACES NOTHING SUCCEEDS LIKE SUCCESS. SO IT IS NOT SURPRISING THAT, AFTER HIS VICTORIES IN NEW HAMPSHIRE AND VERMONT, HART'S BANDWAGON IS REALLY ROLLING. HIS PICTURE HAS MADE THE FRONT COVER OF ALL THREE MAJOR WEEKLIES: TIME, NEWSWEEK AND US NEWS AND WORLD REPORT: VOLUNTEERS ARE STREAMING INTO HIS CAMPAIGN OFFICES AND THE MEDIA ARE NOW DESPATCHING THEIR TOP REPORTERS TO COVER HIS CAMPAIGN. MONDALE, WHO WAS ALWAYS BORING, NOW LOOKS A LOSER. THE REAGAN ORGANISATION IS LOSING IN THE PROCESS ITS PREFERRED OPPONENT.

2. ON THE ISSUES, HART HAS SAID: QUOTE TO UNDERSTAND THIS ELECTION, YOU HAVE TO GET OUT OF THE LINEAR, LEFT-RIGHT SPECTRUM. THIS IS NOT A LEFT-RIGHT RACE. THIS IS A FUTURE-PAST RACE. THAT'S WHAT '32 WAS. THAT'S WHAT '60 WAS UNQUOTE.

3. THE FRONT COVER OF US NEWS AND WORLD REPORT ASKS: QUOTE FLUKE OR REAL THREAT? UNQUOTE. WE SHALL HAVE A CLEARER IDEA AFTER SUPER TUESDAY, THE 13TH OF MARCH. BUT ONE THING IS CLEAR: THE DEMOCRATIC CAMPAIGN HAS NOW TAKEN FIRE FOR THE FIRST TIME.

WRIGHT
FCO/WHITEHALL
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GR 450

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FM WASHINGTON 022330Z FEB 84

TO PRIORITY FCO

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INFO PARIS, BONN, ROME, MOSCOW, UKDEL NATO, UKMIS NEW YORK,
ALL NATO POSTS, TOKYO, UKDEL OECD, DUBLIN, UKREP BRUSSELS,
CGS IN USA.

✓
Prime Minister

THE PRESIDENTIAL RACE: 1984.

1. NOW THAT REAGAN HAS DECIDED TO RUN, THERE ARE AT PRESENT 9 PRESIDENTIAL CANDIDATES UNDER STARTER'S ORDERS: REAGAN FOR THE REPUBLICANS: MONDALE, GLENN, CRANSTON, JACKSON, ASKEW, HART, HOLLINGS AND MCGOVERN FOR THE DEMOCRATS.

2. REAGAN HAS A GOOD DEAL GOING FOR HIM: THE INCUMBENCY, THE GROWTH IN THE ECONOMY, HIS COMMAND OF TELEVISION AND VIRTUALLY UNLIMITED ACCESS TO FUNDS. HIS NATURAL OPTIMISM AND GENIALITY PROJECT AN IMAGE WHICH APPEALS TO A GREAT NUMBER OF AMERICANS: 'AMERICA IS BACK AND WALKING TALL AGAIN' IS WHAT AMERICANS WANT TO HEAR. 'THE ISSUE', SAYS THE PRESIDENT'S POLLSTER, 'IS LEADERSHIP'.

3. THE DEMOCRATS ARE STILL JOCKEYING FOR POSITION AND MANY OF THEM WILL HAVE FADED OR FALLEN AT THE PRIMARY FENCES BEFORE THE END OF MARCH. THE CANDIDACIES OF ASKEW, HART, CRANSTON, MCGOVERN AND HOLLINGS ARE SHORT ON STAYING POWER AND THEY ARE LIKELY SOON TO RUN OUT OF SUPPORT AND THEREFORE OF MONEY. MONDALE IS THE CLEAR FAVOURITE: GLENN IS FAILING TO CHALLENGE, JESSIE JACKSON THE MAVERICK. OUT OF SIGHT, BUT NOT OUT OF MIND, IS THE DARK HORSE, KENNEDY, HOLDING HIMSELF IN READINESS FOR 1988 AND CASTING A SHADOW.

4. THE DEMOCRATS ALSO HAVE A GOOD DEAL GOING FOR THEM. THEY ARE THE NATURAL MAJORITY IN THE COUNTRY, BUT THEY FIND IT MORE DIFFICULT THAN THE REPUBLICANS' TO GET OUT THEIR VOTE. MOREOVER MONDALE HAS ROUNDED UP THE DISAFFECTED MINORITIES: WOMEN, BLACKS, JEWS, AND THE HISPANICS WITH THE EXCEPTION OF THE FLORIDA CUBANS. THE ISSUES ARE 'FAIRNESS' AND 'DO YOU FEEL SAFER NOW THAN IN 1980?'. MOREOVER REAGAN HAS TO RUN A STEEPLECHASE WHEREAS OTHERS ARE MORE OR LESS ON THE FLAT AND HAVE THE LUXURY, AND THE HOPE, OF WATCHING HIM STUMBLE. HURDLES FOR REAGAN INCLUDE THE BUDGET DEFICIT IF THE DEMOCRATS MANAGE TO TURN IT INTO A CAMPAIGN ISSUE: SO FAR THEY HAVE NOT, SINCE THE CAUSES OF THE DEFICIT - TAX REDUCTIONS, DEFENCE SPENDING AND ENTITLEMENTS - ARE ALL POPULAR. BEECHER'S BROOK IN THE SHAPE OF LEBANON LIES AHEAD. CENTRAL AMERICA COULD BECOME AN ADDITIONAL HURDLE, BUT FOR THE MOMENT IT LOOKS LIKE BEING OFF THE COURSE.

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5. AT THE OFF, REAGAN MUST BE FAVOURITE. BUT AS NANCY REAGAN IS REPORTED TO HAVE SAID, THE RACE WILL BE 'REAL TOUGH'. I WOULD NOT DREAM OF ARGUING WITH THE LADY. AND WHAT A DIFFERENCE A YEAR MAKES.

WRIGHT

FLO/WHITEHALL
NAD

(Repetition to REYKJAVIK
referred for departmental decision,
repeated as requested to other posts.)

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OFFICIAL TEXT

Thursday, January 26th, 1984

UNITED STATES INFORMATION SERVICE, U.S. EMBASSY, 55/56 UPPER BROOK STREET, LONDON W1A 2LH

REAGAN ASKS CONGRESS TO ADVANCE "AGENDA FOR PEACE"

STATE OF THE UNION ADDRESS

- - - - -

WASHINGTON -- PRESIDENT REAGAN, IN HIS 1984 STATE OF THE UNION ADDRESS, CALLED ON CONGRESS JANUARY 25 TO JOIN WITH HIM IN CONTINUING AMERICA'S "AGENDA FOR PEACE."

THE PRESIDENT DEFINED HIS AGENDA AS:

- ESTABLISHING A MORE STABLE BASIS FOR PEACEFUL RELATIONS WITH THE SOVIET UNION. (HE TOLD THE SOVIET PEOPLE THAT "A NUCLEAR WAR CANNOT BE WON AND MUST NEVER BE FOUGHT.)
- STRENGTHENING ALLIED RELATIONSHIPS.
- ACHIEVING REAL AND EQUITABLE NUCLEAR ARMS REDUCTIONS.
- REINFORCING OUR WORLDWIDE PEACEMAKING EFFORTS.
- ASSISTING DEVELOPING COUNTRIES.
- ASSISTING IN THE DEVELOPMENT OF DEMOCRATIC INSTITUTIONS ABROAD.

THE PRESIDENT ALSO ANNOUNCED THAT HE IS DIRECTING NASA TO DEVELOP A PERMANENTLY MANNED SPACE STATION, AND HE INVITED OTHER COUNTRIES TO PARTICIPATE.

FOLLOWING IS THE TEXT OF REAGAN'S ADDRESS

ONCE AGAIN, IN KEEPING WITH TIME-HONORED TRADITION, I HAVE COME TO REPORT TO YOU ON THE STATE OF THE UNION. I AM PLEASED TO REPORT THAT AMERICA IS MUCH IMPROVED, AND THERE IS GOOD REASON TO BELIEVE THAT IMPROVEMENT WILL CONTINUE THROUGH THE DAYS TO COME.

YOU AND I HAVE HAD SOME HONEST AND OPEN DIFFERENCES IN THE YEAR PAST. BUT THEY DIDN'T KEEP US FROM JOINING HANDS IN BIPARTISAN COOPERATION TO STOP A LONG DECLINE THAT HAD DRAINED THIS NATION'S SPIRIT AND ERODED ITS WEALTH. THERE IS RENEWED ENERGY AND OPTIMISM THROUGHOUT THE LAND. AMERICA IS BACK -- STANDING TALL, LOOKING TO THE EIGHTIES WITH COURAGE, CONFIDENCE, AND HOPE.

THE PROBLEMS WE ARE OVERCOMING ARE NOT THE HERITAGE OF ONE PERSON, PARTY, OR EVEN ONE GENERATION. IT IS THE TENDENCY OF GOVERNMENT TO GROW, FOR PRACTICES AND PROGRAMS TO BECOME THE NEAREST THING TO ETERNAL LIFE WE'LL SEE ON THIS EARTH. THERE IS ALWAYS THAT WELL-INTENTIONED CHORUS OF VOICES SAYING, "WITH A LITTLE MORE POWER AND MONEY, WE COULD DO SO MUCH FOR THE PEOPLE. "FOR A TIME WE FORGOT THE AMERICAN DREAM ISN'T ONE OF MAKING GOVERNMENT BIGGER; IT'S KEEPING FAITH WITH THE MIGHTY SPIRIT OF FREE PEOPLE UNDER GOD."

AS WE CAME TO THE DECADE OF THE EIGHTIES, WE FACED THE WORST CRISIS IN OUR POST-WAR HISTORY. THE SEVENTIES WERE YEARS OF RISING PROBLEMS AND FALLING CONFIDENCE. THERE WAS A FEELING GOVERNMENT HAD GROWN BEYOND THE CONSENT OF THE GOVERNED. FAMILIES FELT HELPLESS IN THE FACE OF MOUNTING INFLATION AND THE INDIGNITY OF TAXES THAT REDUCED REWARD FOR HARD WORK, THRIFT, AND RISK-TAKING. ALL THIS WAS OVERLAID BY AN EVERY-GROWING WEB OF RULES AND REGULATIONS.

ON THE INTERNATIONAL SCENE, WE HAD AN UNCOMFORTABLE FEELING THAT WE HAD LOST THE RESPECT OF FRIEND AND FOE. SOME QUESTIONED WHETHER WE HAD THE WILL TO DEFEND PEACE AND FREEDOM.

BUT AMERICA IS TOO GREAT FOR SMALL DREAMS. THERE WAS A HUNGER IN THE LAND FOR A SPIRITUAL REVIVAL; IF YOU WILL, A CRUSADE FOR RENEWAL. THE AMERICAN PEOPLE SAID: LET US LOOK TO THE FUTURE WITH CONFIDENCE, BOTH AT HOME AND ABROAD. LET US GIVE FREEDOM A CHANCE.

AMERICANS WERE READY TO MAKE A NEW BEGINNING AND TOGETHER WE HAVE DONE IT. WE ARE CONFRONTING OUR PROBLEMS ONE BY ONE. HOPE IS ALIVE TONIGHT FOR MILLIONS OF YOUNG FAMILIES AND SENIOR CITIZENS SET FREE FROM UNFAIR TAX INCREASES AND CRUSHING INFLATION. INFLATION HAS BEEN BEATEN DOWN FROM 12.4 TO 3.2 PERCENT, AND THAT IS A GREAT VICTORY FOR ALL THE PEOPLE. THE PRIME RATE HAS BEEN CUT ALMOST IN HALF, AND WE MUST WORK TOGETHER TO BRING IT DOWN EVEN MORE.

TOGETHER, WE PASSED THE FIRST ACROSS-THE-BOARD TAX REDUCTION FOR EVERYONE SINCE THE KENNEDY TAX CUTS. NEXT YEAR, TAX RATES WILL BE INDEXED SO INFLATION CAN'T PUSH PEOPLE INTO HIGHER BRACKETS WHEN THEY GET COST-OF-LIVING RAISES. GOVERNMENT MUST NEVER AGAIN USE INFLATION TO PROFIT AT THE PEOPLE'S EXPENSE.

TODAY, A WORKING FAMILY EARNING 25,000 DOLLARS, HAS 1,100 DOLLARS MORE IN PURCHASING POWER THAN IF TAX AND INFLATION RATES WERE STILL AT 1980 LEVELS. REAL AFTER-TAX INCOME INCREASED 5 PERCENT LAST YEAR. AND ECONOMIC DEREGULATION OF KEY INDUSTRIES LIKE TRANSPORTATION HAS OFFERED MORE CHOICES TO CONSUMERS AND NEW CHANCES FOR ENTREPRENEURS, WHILE HOLDING DOWN COSTS AND PROTECTING SAFETY. TONIGHT, WE CAN REPORT AND BE PROUD OF ONE OF THE BEST RECOVERIES IN DECADES. SEND AWAY THE HANDWRINGERS AND DOUBTING THOMASES. HOPE IS REBORN FOR COUPLES DREAMING OF OWNING HOMES AND FOR RISK-TAKERS WITH VISION TO CREATE TOMORROW'S OPPORTUNITIES.

THE SPIRIT OF ENTERPRISE IS SPARKED BY THE SUNRISE INDUSTRIES OF HIGH-TECH, AND BY SMALL BUSINESS PEOPLE WITH BIG IDEAS -- PEOPLE LIKE BARBARA PROCTOR, WHO ROSE FROM A GHETTO SHACK TO BUILD A MULTIMILLION DOLLAR ADVERTISING AGENCY IN CHICAGO; AND CARLOS PEREZ, A CUBAN REFUGEE, WHO TURNED 27 DOLLARS AND A DREAM INTO A SUCCESSFUL IMPORTING BUSINESS IN CORAL GABLES, FLORIDA.

PEOPLE LIKE THESE ARE HEROES FOR THE EIGHTIES. THEY HELPED 4 MILLION AMERICANS FIND JOBS IN 1983. MORE PEOPLE ARE DRAWING PAYCHECKS TONIGHT THAN EVER BEFORE. AND PROGRESS HELPS EVERYONE. IN 1983, WOMEN FILLED 73 PERCENT OF ALL NEW JOBS IN MANAGERIAL, PROFESSIONAL, AND TECHNICAL FIELDS.

BUT WE KNOW MANY OF OUR FELLOW COUNTRYMEN ARE STILL OUT OF WORK, WONDERING WHAT WILL COME OF THEIR HOPES AND DREAMS. CAN WE LOVE AMERICA AND NOT REACH OUT TO TELL THEM: YOU ARE NOT FORGOTTEN; WE WILL NOT REST UNTIL EACH OF YOU CAN REACH AS HIGH AS YOUR GOD-GIVEN TALENTS WILL TAKE YOU.

THE HEART OF AMERICA IS STRONG, GOOD, AND TRUE. THE CYNICS WERE WRONG -- AMERICA NEVER WAS A SICK SOCIETY. WE'RE SEEING REDEDICATION TO BEDROCK VALUES OF FAITH, FAMILY, WORK, NEIGHBORHOOD, PEACE, AND FREEDOM -- VALUES THAT HELP BRING US TOGETHER AS ONE PEOPLE, FROM THE YOUNGEST CHILD TO THE MOST SENIOR CITIZEN.

THE CONGRESS DESERVES AMERICA'S THANKS FOR HELPING US RESTORE PRIDE AND CREDIBILITY TO OUR MILITARY. I HOPE YOU ARE AS PROUD AS I AM OF THE YOUNG MEN AND WOMEN IN UNIFORM WHO HAVE VOLUNTEERED TO MAN THE

RAMPARTS IN DEFENSE OF FREEDOM AND WHOSE DEDICATION, VALOR, AND SKILL INCREASES SO MUCH OUR CHANCE OF LIVING IN A WORLD AT PEACE.

PEOPLE EVERYWHERE HUNGER FOR PEACE AND A BETTER LIFE. THE TIDE OF THE FUTURE IS A FREEDOM TIDE, AND OUR STRUGGLE FOR DEMOCRACY CANNOT AND WILL NOT BE DENIED. THIS NATION CHAMPIONS PEACE THAT ENSHRINES LIBERTY, DEMOCRATIC RIGHTS, AND DIGNITY FOR EVERY INDIVIDUAL. AMERICA'S NEW STRENGTH, CONFIDENCE, AND PURPOSE ARE CARRYING HOPE AND OPPORTUNITY FAR FROM OUR SHORES. A WORLD ECONOMIC RECOVERY IS UNDERWAY. IT BEGAN HERE.

WE HAVE JOURNEYED FAR. BUT WE HAVE MUCH FARTHER TO GO. FRANKLIN ROOSEVELT TOLD US 50 YEARS AGO THIS MONTH: "CIVILIZATION CAN NOT GO BACK; CIVILIZATION MUST NOT STAND STILL. WE HAVE UNDERTAKEN NEW METHODS. IT IS OUR TASK TO PERFECT, TO IMPROVE, TO ALTER WHEN NECESSARY, BUT IN ALL CASES TO GO FORWARD."

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FREEDOM'S NEXT STEP: FOUR GREAT GOALS

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IT IS TIME TO MOVE FORWARD AGAIN, TIME FOR AMERICA TO TAKE FREEDOM'S NEXT STEP. LET US UNITE TONIGHT BEHIND FOUR GREAT GOALS TO KEEP AMERICA FREE, SECURE, AND AT PEACE IN THE EIGHTIES. TOGETHER:

WE CAN ENSURE STEADY ECONOMIC GROWTH.

WE CAN DEVELOP AMERICA'S NEXT FRONTIER.

WE CAN STRENGTHEN OUR TRADITIONAL VALUES.

AND WE CAN BUILD A MEANINGFUL PEACE -- TO PROTECT OUR LOVED ONES AND THIS SHINING STAR OF FAITH THAT HAS GUIDED MILLIONS FROM TYRANNY TO THE SAFE HARBOR OF FREEDOM, PROGRESS, AND HOPE.

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1. ENSURING STEADY ECONOMIC GROWTH

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DOING THESE THINGS WILL OPEN WIDER THE GATES OF OPPORTUNITY AND PROVIDE GREATER SECURITY FOR ALL, WITH NO BARRIERS OF BIGOTRY OR DISCRIMINATION. THE KEY TO A DYNAMIC DECADE IS VIGOROUS ECONOMIC GROWTH, OUR FIRST GREAT GOAL. WE MIGHT WELL BEGIN WITH COMMON SENSE IN FEDERAL BUDGETING: GOVERNMENT SPENDING NO MORE THAN GOVERNMENT TAKES IN.

WE MUST BRING FEDERAL DEFICITS DOWN, BUT HOW WE DO THAT MAKES ALL THE DIFFERENCE. WE CAN BEGIN BY LIMITING THE SIZE AND SCOPE OF GOVERNMENT. UNDER THE LEADERSHIP OF VICE PRESIDENT BUSH, WE HAVE REDUCED THE GROWTH OF FEDERAL REGULATIONS BY MORE THAN 25 PERCENT, AND CUT WELL OVER 300 MILLION HOURS OF GOVERNMENT-REQUIRED PAPERWORK EACH YEAR. THIS WILL SAVE THE PUBLIC MORE THAN 150 BILLION DOLLARS OVER THE NEXT 10 YEARS.

THE GRACE COMMISSION HAS GIVEN US SOME 2,500 RECOMMENDATIONS FOR REDUCING WASTEFUL SPENDING, AND THEY ARE BEING EXAMINED THROUGHOUT THE ADMINISTRATION. FEDERAL SPENDING GROWTH HAS BEEN CUT FROM 17.4 PERCENT IN 1980 TO LESS THAN HALF THAT TODAY. WE HAVE ALREADY ACHIEVED OVER 300 BILLION DOLLARS IN BUDGET SAVINGS FOR THE PERIOD 1982-86. BUT THAT IS ONLY A LITTLE MORE THAN HALF WHAT WE SOUGHT. GOVERNMENT IS STILL SPENDING TOO LARGE A PERCENTAGE OF THE TOTAL ECONOMY.

SOME INSIST ANY FURTHER BUDGET SAVINGS MUST BE OBTAINED BY REDUCING THE PORTION SPENT ON DEFENSE. WELL, THIS IGNORES THE FACT THAT NATIONAL DEFENSE IS SOLELY THE RESPONSIBILITY OF THE FEDERAL

GOVERNMENT. IT IS ITS PRIME RESPONSIBILITY; YET DEFENSE SPENDING IS LESS THAN A THIRD OF THE TOTAL BUDGET. DURING THE YEARS OF PRESIDENT KENNEDY AND BEFORE, DEFENSE WAS ALMOST HALF THE TOTAL BUDGET. THEN CAME SEVERAL YEARS IN WHICH OUR MILITARY CAPABILITY WAS ALLOWED TO DETERIORATE TO A VERY DANGEROUS DEGREE. WE ARE JUST NOW RESTORING,

THROUGH THE ESSENTIAL MODERNIZATION OF OUR CONVENTIONAL AND STRATEGIC FORCES, OUR CAPABILITY TO MEET OUR PRESENT AND FUTURE SECURITY NEEDS. WE DARE NOT SHIRK OUR RESPONSIBILITY TO KEEP AMERICA FREE, SECURE, AND AT PEACE.

THE LAST DECADE SAW DOMESTIC SPENDING SURGE LITERALLY OUT OF CONTROL. BUT THE BASIS FOR SUCH SPENDING HAD BEEN LAID IN PREVIOUS YEARS. A PATTERN OF OVERSPENDING HAS BEEN IN PLACE FOR HALF A CENTURY. AS THE NATIONAL DEBT GREW, WE WERE TOLD NOT TO WORRY, WE OWED IT TO OURSELVES.

NOW WE KNOW DEFICITS ARE A CAUSE FOR WORRY. BUT THERE IS A DIFFERENCE OF OPINION AS TO WHETHER TAXES SHOULD BE INCREASED, SPENDING CUT, OR SOME OF BOTH. FEAR IS EXPRESSED THAT GOVERNMENT BORROWING TO FUND THE DEFICIT COULD INHIBIT THE ECONOMIC RECOVERY BY TAKING CAPITAL NEEDED FOR BUSINESS AND INDUSTRIAL EXPANSION. I THINK THAT DEBATE IS MISSING AN IMPORTANT POINT. WHETHER GOVERNMENT BORROWS OR INCREASES TAXES, IT WILL BE TAKING THE SAME AMOUNT OF MONEY FROM THE PRIVATE SECTOR, AND, EITHER WAY, IT'S TOO MUCH. SIMPLE FAIRNESS DICTATES GOVERNMENT MUST NOT RAISE TAXES ON FAMILIES STRUGGLING TO PAY THEIR BILLS. THE ROOT OF THE PROBLEM IS THAT GOVERNMENT'S SHARE IS MORE THAN WE CAN AFFORD IF WE ARE TO HAVE A SOUND ECONOMY.

WE MUST BRING THE DEFICITS TO ENSURE CONTINUED ECONOMIC GROWTH. IN THE BUDGET I WILL SUBMIT ON FEBRUARY 1, I WILL RECOMMEND MEASURES THAT WILL REDUCE THE DEFICIT OVER THE NEXT 5 YEARS. MANY OF THESE WILL BE UNFINISHED BUSINESS FROM LAST YEAR'S BUDGET. SOME COULD BE ENACTED QUICKLY IF WE WOULD JOIN IN A SERIOUS EFFORT TO ADDRESS THIS PROBLEM. I SPOKE TODAY WITH SPEAKER OF THE HOUSE O'NEILL AND SENATE MAJORITY LEADER BAKER. I ASKED THEM IF THEY WOULD DESIGNATE REPRESENTATIVES TO MEET WITH REPRESENTATIVES OF THE ADMINISTRATION -- TO TRY TO REACH PROMPT AGREEMENT ON A BIPARTISAN DEFICIT REDUCTION PLAN. I KNOW IT WOULD TAKE A LONG AND HARD STRUGGLE TO AGREE ON A FULL-SCALE PLAN. SO WHAT I HAVE PROPOSED IS THAT WE FIRST SEE IF WE CAN AGREE ON A DOWNPAYMENT.

I BELIEVE THERE IS A BASIS FOR SUCH AGREEMENT -- ONE THAT COULD REDUCE DEFICITS BY ABOUT ONE HUNDRED BILLION DOLLARS OVER THE NEXT 3 YEARS. WE COULD FOCUS ON SOME OF THE LESS CONTENTIOUS SPENDING CUTS THAT ARE STILL PENDING BEFORE THE CONGRESS. THESE COULD BE COMBINED WITH MEASURES TO CLOSE CERTAIN TAX LOOPHOLES -- MEASURES THAT THE TREASURY DEPARTMENT HAS PREVIOUSLY SAID TO BE WORTHY OF SUPPORT. IN ADDITION, WE COULD EXAMINE THE POSSIBILITY OF ACHIEVING FURTHER OUTLAY SAVINGS BASED ON THE WORK OF THE GRACE COMMISSION.

IF THE SPEAKER AND THE MAJORITY LEADER ARE WILLING, MY REPRESENTATIVES WILL BE PREPARED TO MEET WITH THEIRS AT THE EARLIEST POSSIBLE TIME. I WOULD HOPE THE LEADERSHIP MIGHT AGREE ON AN EXPEDITED TIMETABLE IN WHICH TO DEVELOP AND ENACT THE DOWNPAYMENT.

BUT A DOWNPAYMENT ALONE IS NOT ENOUGH TO BREAK US OUT OF THE DEFICIT PROBLEM. IT COULD HELP START US ON THE RIGHT PATH. YET, WE MUST DO MORE. SO I PROPOSE THAT WE BEGIN EXPLORING HOW TOGETHER WE CAN MAKE STRUCTURAL REFORMS TO CURB THE BUILT-IN GROWTH OF SPENDING.

I ALSO PROPOSE IMPROVEMENTS IN THE BUDGETING PROCESS. SOME 43 OF OUR 50 STATES GRANT THEIR GOVERNORS THE RIGHT TO VETO INDIVIDUAL ITEMS IN APPROPRIATION BILLS WITHOUT HAVING TO VETO THE ENTIRE BILL. CALIFORNIA IS ONE OF THOSE 43 STATES. AS GOVERNOR, I FOUND THIS "LINE-ITEM VETO" WAS A POWERFUL TOOL AGAINST WASTEFUL OF EXTRAVAGANT SPENDING. IT WORKS IN 43 STATES -- LET'S PUT IT TO WORK IN WASHINGTON, D.C. FOR ALL THE PEOPLE.

IT WOULD BE MOST EFFECTIVE IF DONE BY CONSTITUTIONAL AMENDMENT. THE MAJORITY OF AMERICANS APPROVE OF SUCH AN AMENDMENT, JUST AS THEY AND I APPROVE OF AN AMENDMENT MANDATING A BALANCED FEDERAL BUDGET. MANY STATES ALSO HAVE THIS PROTECTION IN THEIR CONSTITUTIONS.

TO TALK OF MEETING THE PRESENT SITUATION BY INCREASING TAXES IS A BAND-AID SOLUTION WHICH DOES NOTHING TO CURE AN ILLNESS THAT HAS BEEN

COMING ON FOR HALF A CENTURY-- TO SAY NOTHING OF THE FACT THAT IT POSES A REAL THREAT TO ECONOMIC RECOVERY. LET'S REMEMBER THAT A SUBSTANTIAL AMOUNT OF INCOME TAX IS PRESENTLY OWED AND NOT PAID BY PEOPLE IN THE UNDERGROUND ECONOMY. IT WOULD BE IMMORAL TO MAKE THOSE WHO ARE PAYING TAXES PAY MORE TO COMPENSATE FOR THOSE WHO AREN'T PAYING THEIR SHARE.

THERE IS A BETTER WAY: LET US GO FORWARD WITH AN HISTORIC REFORM FOR FAIRNESS, SIMPLICITY, AND INCENTIVES FOR GROWTH. I AM ASKING SECRETARY DON REGAN FOR A PLAN FOR ACTION TO SIMPLIFY THE ENTIRE TAX CODE, SO ALL TAXPAYERS, BIG AND SMALL, ARE TREATED MORE FAIRLY. I BELIEVE SUCH A PLAN COULD RESULT IN THAT "UNDERGROUND ECONOMY" BEING BROUGHT INTO THE SUNLIGHT OF HONEST TAX COMPLIANCE; AND IT COULD MAKE THE TAX BASE BROADER SO PERSONAL TAX RATES COULD COME DOWN, NOT GO UP.

I HAVE ASKED THAT SPECIFIC RECOMMENDATIONS, CONSISTENT WITH THESE OBJECTIVES, BE PRESENTED TO ME BY DECEMBER 1984.

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2. DEVELOPING AMERICA'S NEXT FRONTIER

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OUR SECOND GREAT GOAL IS TO BUILD ON AMERICA'S PIONEER SPIRIT AND DEVELOP OUR NEXT FRONTIER. A SPARKLING ECONOMY SPURS INITIATIVE AND INGENUITY TO CREATE SUNRISE INDUSTRIES AND MAKE OLDER ONES MORE COMPETITIVE.

NOWHERE IS THIS MORE TRUE THAN OUR NEXT FRONTIER: SPACE. NOWHERE DO WE SO EFFECTIVELY DEMONSTRATE OUR TECHNOLOGICAL LEADERSHIP AND ABILITY TO MAKE LIFE BETTER ON EARTH. THE SPACE AGE IS BARELY A QUARTER OF A CENTURY OLD, BUT ALREADY WE'VE PUSHED CIVILIZATION FORWARD WITH OUR ADVANCES IN SCIENCE AND TECHNOLOGY. OPPORTUNITIES AND JOBS WILL MULTIPLY AS WE CROSS NEW THRESHOLDS OF KNOWLEDGE AND REACH DEEPER INTO THE UNKNOWN.

OUR PROGRESS IN SPACE -- TAKING GIANT STEPS FOR ALL MANKIND -- IS A TRIBUTE TO AMERICAN TEAMWORK AND EXCELLENCE. OUR FINEST MINDS IN GOVERNMENT, INDUSTRY, AND ACADEMIA HAVE ALL PULLED TOGETHER, AND WE CAN BE PROUD TO SAY: WE ARE FIRST, WE ARE THE BEST, AND WE ARE SO BECAUSE WE ARE FREE.

AMERICA HAS ALWAYS BEEN GREATEST WHEN WE DARED TO BE GREAT. WE CAN REACH FOR GREATNESS AGAIN. WE CAN FOLLOW OUR DREAMS TO DISTANT STARS, LIVING AND WORKING IN SPACE FOR PEACEFUL, ECONOMIC, AND SCIENTIFIC GAIN. TONIGHT, I AM DIRECTING NASA TO DEVELOP A PERMANENTLY-MANNED SPACE STATION, AND TO DO IT WITHIN A DECADE.

A SPACE STATION WILL PERMIT QUANTUM LEAPS IN OUR RESEARCH IN SCIENCE, COMMUNICATIONS, AND IN METALS AND LIFE-SAVING MEDICINES WHICH CAN BE MANUFACTURED ONLY IN SPACE. WE WANT OUR FRIENDS TO HELP US MEET THESE CHALLENGES AND SHARE IN THE BENEFITS. NASA WILL INVITE OTHER COUNTRIES TO PARTICIPATE SO WE CAN STRENGTHEN PEACE, BUILD PROSPERITY, AND EXPAND FREEDOM FOR ALL WHO SHARE OUR GOALS.

JUST AS THE OCEANS OPENED UP A NEW WORLD FOR CLIPPER SHIPS AND YANKEE TRADERS, SPACE HOLDS ENORMOUS POTENTIAL FOR COMMERCE TODAY. THE MARKET FOR SPACE TRANSPORTATION COULD SURPASS OUR CAPACITY TO DEVELOP IT. COMPANIES INTERESTED IN PUTTING PAYLOADS INTO SPACE MUST HAVE READY ACCESS TO PRIVATE SECTOR LAUNCH SERVICES. THE DEPARTMENT OF TRANSPORTATION WILL HELP AN EXPENDABLE LAUNCH SERVICES INDUSTRY TO GET OFF THE GROUND. WE WILL SOON IMPLEMENT A NUMBER OF EXECUTIVE INITIATIVES, DEVELOP PROPOSALS TO EASE REGULATORY CONSTRAINTS, AND, WITH NASA'S HELP, PROMOTE PRIVATE SECTOR INVESTMENT IN SPACE.

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PRESERVING EARTH'S RESOURCES

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AND AS WE DEVELOP THE FRONTIER OF SPACE, LET US REMEMBER OUR RESPONSIBILITY TO PRESERVE OUR OLDER RESOURCES HERE ON EARTH. PRESERVATION OF OUR ENVIRONMENT IS NOT A LIBERAL OR CONSERVATIVE CHALLENGE, IT'S COMMON SENSE.

THOUGH THIS IS A TIME OF BUDGE RESTRAINTS, I HAVE REQUESTED FOR EPA ONE OF THE LARGEST PERCENTAGE BUDGET INCREASE OF ANY AGENCY. WE WILL BEGIN THE LONG, NECESSARY EFFORT TO CLEAN UP A PRODUCTIVE, RECREATIONAL AREA AND A SPECIAL NATIONAL RESOURCE -- THE CHESAPEAKE BAY.

TO REDUCE THE THREAT POSED BY ABANDONED HAZARDOUS WASTE DUMPS, EPA WILL SPEND FOUR HUNDRED TEN MILLION DOLLARS THIS YEAR AND I WILL REQUEST A SUPPLEMENTAL INCREASE OF 50 MILLION DOLLARS. AND BECAUSE THE SUPERFUND LAW EXPIRES IN 1985, I HAVE ASKED BILL RUCKELSHAUS TO DEVELOP A PROPOSAL FOR ITS EXTENSION SO WE WILL HAVE ADDITIONAL TIME TO COMPLETE THIS IMPORTANT TASK.

ON THE QUESTION OF ACID RAIN, WHICH CONCERNS PEOPLE IN MANY AREAS OF THE U.S. AND CANADA, I AM PROPOSING A RESEARCH PROGRAM THAT DOUBLES OUR CURRENT FUNDING. AND WE WILL TAKE ADDITIONAL ACTION TO RESTORE OUR LAKES AND DEVELOP NEW TECHNOLOGY TO REDUCE POLLUTION THAT CAUSES ACID RAIN.

WE HAVE RECENTLY IMPROVED THE CONDITIONS OF OUR NATURAL RESOURCES. WE'LL ASK THE CONGRESS FOR 157 MILLION DOLLARS BEGINNING IN 1985 TO ACQUIRE NEW PARK AND CONSERVATION LANDS. THE DEPARTMENT OF THE INTERIOR WILL ENCOURAGE CAREFUL, SELECTIVE EXPLORATION AND PRODUCTION OF OUR VITAL RESOURCES IN AN EXCLUSIVE ECONOMIC ZONE WITHIN THE 200-MILE LIMIT OFF OUR COASTS -- BUT WITH STRICT ADHERENCE TO ENVIRONMENTAL LAWS AND WITH FULLER STATE AND PUBLIC PARTICIPATION.

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3. STRENGTHENING TRADITIONAL VALUES

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BUT OUR MOST PRECIOUS RESOURCES, OUR GREATEST HOPE FOR THE FUTURE, ARE THE MINDS AND HEARTS OF OUR PEOPLE, ESPECIALLY OUR CHILDREN. WE CAN HELP THEM BUILD TOMORROW BY STRENGTHENING OUR COMMUNITY OF SHARED VALUES. THIS MUST BE OUR THIRD GREAT GOAL. FOR US, FAITH, FAMILY, WORK, NEIGHBORHOOD, FREEDOM AND PEACE ARE NOT JUST WORDS. THEY ARE EXPRESSIONS OF WHAT AMERICA MEANS, DEFINITIONS OF WHAT MAKES US GOOD AND LOVING PEOPLE.

FAMILIES STAND AT THE CENTER OF OUR SOCIETY. AND EVERY FAMILY HAS A PERSONAL STAKE IN PROMOTING EXCELLENCE IN EDUCATION. EXCELLENCE DOES NOT BEGIN IN WASHINGTON. A 600-PERCENT INCREASE IN FEDERAL SPENDING ON EDUCATION BETWEEN 1960 AND 1980 WAS ACCOMPANIED BY A STEADY DECLINE IN SAT SCORES. EXCELLENCE MUST BEGIN IN OUR HOMES AND NEIGHBORHOOD SCHOOLS, WHERE IT'S THE RESPONSIBILITY OF EVERY PARENT AND TEACHER AND THE RIGHT OF EVERY CHILD.

OUR CHILDREN COME FIRST. THAT'S WHY I ESTABLISHED A BIPARTISAN NATIONAL COMMISSION ON EXCELLENCE IN EDUCATION, TO HELP US CHART A COMMON SENSE COURSE FOR BETTER EDUCATION. ALREADY, COMMUNITIES ARE IMPLEMENTING THE COMMISSION'S RECOMMENDATIONS. SCHOOLS ARE REPORTING PROGRESS IN MATH AND READING SKILLS. BUT WE MUST DO MORE TO RESTORE DISCIPLINE TO SCHOOLS; AND WE MUST ENCOURAGE THE TEACHING OF NEW BASICS, REWARD TEACHERS OF MERIT, ENFORCE TOUGHER STANDARDS, AND PUT OUR PARENTS BACK IN CHARGE.

I WILL CONTINUE TO PRESS FOR TUITION TAX CREDITS TO EXPAND OPPORTUNITIES FOR FAMILIES, AND TO SOFTEN THE DOUBLE PAYMENT FOR THOSE PAYING PUBLIC SCHOOL TAXES AND PRIVATE SCHOOL TUITION. OUR PROPOSAL WOULD TARGET ASSISTANCE TO LOW-AND MIDDLE-INCOME FAMILIES. JUST AS MORE INCENTIVES ARE NEEDED WITHIN OUR SCHOOLS, GREATER COMPETITION IS NEEDED AMONG OUR SCHOOLS. WITHOUT STANDARDS AND COMPETITION THERE CAN BE NO CHAMPIONS, NO RECORDS BROKEN, NO EXCELLENCE -- IN EDUCATION OR ANY OTHER WALK OF LIFE.

AND WHILE I'M ON THIS SUBJECT -- EACH DAY, YOUR MEMBERS OBSERVE A 200-YEAR-OLD TRADITION MEANT TO SIGNIFY AMERICA IS ONE NATION UNDER GOD. I MUST ASK: IF YOU CAN BEGIN YOUR DAY WITH A MEMBER OF THE CLERGY STANDING RIGHT HERE TO LEAD YOU IN PRAYER, THEN WHY CAN'T

FREEDOM TO ACKNOWLEDGE GOD BE ENJOYED AGAIN BY CHILDREN IN EVERY SCHOOLROOM ACROSS THIS LAND?

AMERICA WAS FOUNDED BY PEOPLE WHO BELIEVED THAT GOD WAS THEIR ROCK OF SAFETY. HE IS OURS. I RECOGNIZE WE MUST BE CAUTIOUS IN CLAIMING THAT GOD IS ON OUR SIDE. BUT I THINK IT'S ALRIGHT TO KEEP ASKING IF WE ARE ON HIS SIDE.

DURING OUR FIRST 3 YEARS, WE HAVE JOINED BIPARTISAN EFFORTS TO RESTORE PROTECTION OF THE LAW TO UNBORN CHILDREN. I KNOW THIS ISSUE IS VERY CONTROVERSIAL. BUT UNLESS AND UNTIL IT CAN BE PROVEN THAT AN UNBORN CHILD IS NOT A LIVING HUMAN BEING, CAN WE JUSTIFY ASSUMING WITHOUT PROOF THAT IT ISN'T? NO ONE HAS YET OFFERED SUCH PROOF. INDEED, ALL THE EVIDENCE IS TO THE CONTRARY. WE SHOULD RISE ABOVE BITTERNESS AND REPROACH. AND IF AMERICANS COULD COME TOGETHER IN A SPIRIT OF UNDERSTANDING AND HELPING, THEN WE COULD FIND POSITIVE SOLUTIONS TO THE TRAGEDY OF ABORTION.

ECONOMIC RECOVERY, BETTER EDUCATION, REDEDICATION TO VALUES ALL SHOW THE SPIRIT OF RENEWAL GAINING THE UPPER HAND. AND ALL WILL IMPROVE FAMILY LIFE IN THE EIGHTIES. BUT FAMILIES NEED MORE. THEY NEED ASSURANCE THAT THEY AND THEIR LOVED ONES CAN WALK THE STREETS OF AMERICA WITHOUT BEING AFRAID. PARENTS NEED TO KNOW THEIR CHILDREN WILL NOT BE VICTIMS OF CHILD PORNOGRAPHY AND ABDUCTION. THIS YEAR WE WILL INTENSIFY OUR DRIVE AGAINST THESE AND OTHER HORRIBLE CRIMES LIKE SEXUAL ABUSE AND FAMILY VIOLENCE. ALREADY, OUR EFFORTS TO CRACK DOWN ON CAREER CRIMINALS, ORGANIZED CRIME, DRUG PUSHERS, AND TO ENFORCE TOUGHER AND SENTENCES AND PAROLES ARE HAVING EFFECT. IN 1982, THE CRIME RATE DROPPED BY 4.3 PERCENT, THE BIGGEST DECLINE SINCE 1972. PROTECTING VICTIMS IS JUST AS IMPORTANT AS SAFEGUARDING THE RIGHTS OF DEFENDANTS.

OPPORTUNITIES FOR ALL AMERICAN WILL INCREASE IF WE MOVE FORWARD ON FAIR HOUSING, AND WORK TO ENSURE WOMEN'S RIGHTS, PROVIDE FOR EQUITABLE TREATMENT IN PENSION BENEFITS AND INDIVIDUAL RETIREMENT ACCOUNTS, FACILITATE CHILD CARE, AND ENFORCE DELINQUENT PARENT SUPPORT PAYMENTS.

IT IS NOT JUST THE HOME BUT THE WORKPLACE AND COMMUNITY THAT SUSTAIN OUR VALUES AND SHAPE OUR FUTURE. SO I ASK YOUR HELP IN ASSISTING MORE COMMUNITIES TO BREAK THE BONDAGE OF DEPENDENCY. HELP US TO FREE ENTERPRISE BY PERMITTING DEBATE AND VOTING "YES" ON OUR PROPOSAL FOR ENTERPRISE ZONES IN AMERICA. THIS HAS BEEN BEFORE YOU FOR TWO YEARS. ITS PASSAGE CAN HELP HIGH-UNEMPLOYMENT AREAS BY CREATING JOBS AND RESTORING NEIGHBORHOODS.

A SOCIETY BURSTING WITH OPPORTUNITIES, REACHING FOR ITS FUTURE WITH CONFIDENCE, SUSTAINED BY FAITH, FAIR PLAY, AND A CONVICTION THAT GOOD AND COURAGEOUS PEOPLE WILL FLOURISH WHEN THEY ARE FREE -- THESE ARE THE SECRETS OF A STRONG AND PROSPEROUS AMERICA, AT PEACE WITH ITSELF AND THE WORLD.

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4. BUILDING A MEANINGFUL PEACE

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A LASTING AND MEANINGFUL PEACE IS OUR FOURTH GREAT GOAL. IT IS OUR HIGHEST ASPIRATION. AND OUR RECORD IS CLEAR: AMERICANS RESORT TO FORCE ONLY WHEN WE MUST. WE HAVE NEVER BEEN AGGRESSORS. WE HAVE ALWAYS STRUGGLED TO DEFEND FREEDOM AND DEMOCRACY.

WE HAVE NO TERRITORIAL AMBITIONS. WE OCCUPY NO COUNTRIES. WE BUILD NO WALLS TO LOCK PEOPLE IN. AMERICANS BUILD THE FUTURE. AND OUR VISION OF A BETTER LIFE FOR FARMERS, MERCHANTS, AND WORKING PEOPLE, FROM THE AMERICAS TO ASIA, BEGINS WITH A SIMPLE PREMISE: THE FUTURE IS BEST DECIDED BY BALLOTS, NOT BULLETS.

GOVERNMENTS WHICH REST UPON THE CONSENT OF THE GOVERNED DO NOT WAGE WAR ON THEIR NEIGHBORS. ONLY WHEN PEOPLE ARE GIVEN A PERSONAL STAKE IN DECIDING THEIR OWN DESTINY AND BENEFITTING FROM THEIR OWN RIGHTS -- DO THEY CREATE SOCIETIES THAT ARE PROSPEROUS, PROGRESSIVE, AND FREE.

TONIGHT, IT IS DEMOCRACIES THAT OFFER HOPE BY FEEDING THE HUNGRY, PROLONGING LIFE, AND ELIMINATING DRUDGERY.

WHEN IT COMES TO KEEPING AMERICA STRONG, FREE, AND AT PEACE, THERE SHOULD BE NO REPUBLICANS OR DEMOCRATS, JUST PATRIOTIC AMERICANS. WE CAN DECIDE THE TOUGH ISSUES NOT BY WHO IS RIGHT, BUT BY WHAT IS RIGHT.

TOGETHER, WE CAN CONTINUE TO ADVANCE OUR AGENDA FOR PEACE. WE CAN: ESTABLISH A MORE STABLE BASIS FOR PEACEFUL RELATIONS WITH THE SOVIET UNION;

STRENGTHEN ALLIED RELATIONSHIPS ACROSS THE BOARD;

ACHIEVE REAL AND EQUITABLE REDUCTIONS IN THE LEVELS OF NUCLEAR ARMS;

REINFORCE OUR PEACEMAKING EFFORTS IN THE MIDDLE EAST, CENTRAL AMERICA, AND SOUTHERN AFRICA;

ASSIST DEVELOPING COUNTRIES, PARTICULARLY OUR NEIGHBORS IN THE WESTERN HEMISPHERE; AND

ASSIST IN THE DEVELOPMENT OF DEMOCRATIC INSTITUTIONS THROUGHOUT THE WORLD.

THE WISDOM OF OUR BIPARTISAN COOPERATION WAS SEEN IN THE WORK OF THE SCOWCROFT COMMISSION, WHICH STRENGTHENED OUR ABILITY TO DETER WAR AND PROTECT PEACE. IN THAT SAME SPIRIT, I URGE YOU TO MOVE FORWARD WITH THE JACKSON PLAN TO IMPLEMENT THE RECOMMENDATIONS OF THE BIPARTISAN COMMISSION ON CENTRAL AMERICA.

YOUR JOINT RESOLUTION ON THE MULTINATIONAL PEACEKEEPING FORCE IN LEBANON IS ALSO SERVING THE CAUSE OF PEACE. WE ARE MAKING PROGRESS IN LEBANON. FOR NEARLY 10 YEARS, THE LEBANESE HAVE LIVED FROM TRAGEDY TO TRAGEDY, WITH NO HOPE FOR THEIR FUTURE. NOW, THE MULTINATIONAL PEACEKEEPING FORCE AND OUR MARINES ARE HELPING THEM BREAK THEIR CYCLE OF DESPAIR. THERE IS HOPE FOR A FREE, INDEPENDENT, AND SOVEREIGN LEBANON. WE MUST HAVE COURAGE TO GIVE PEACE A CHANCE. AND WE MUST NOT BE DRIVEN FROM OUR OBJECTIVES FOR PEACE IN LEBANON BY STATE-SPONSORED TERRORISM. WE HAVE SEEN THIS UGLY SPECTRE IN BEIRUT, KUWAIT, AND RANGOON. IT DEMANDS INTERNATIONAL ATTENTION. I WILL FORWARD SHORTLY LEGISLATIVE PROPOSALS TO HELP COMBAT TERRORISM, AND I WILL BE SEEKING SUPPORT FROM OUR ALLIES FOR CONCERTED ACTION.

OUR NATO ALLIANCE IS STRONG. 1983 WAS A BANNER YEAR FOR POLITICAL COURAGE. AND WE HAVE STRENGTHENED OUR PARTNERSHIPS AND FRIENDSHIPS IN THE FAR EAST. WE ARE COMMITTED TO DIALOGUE, DETERRENCE, AND PROMOTING PROSPERITY. WE WILL WORK WITH OUR TRADING PARTNERS FOR A NEW ROUND OF NEGOTIATIONS IN SUPPORT OF FREER WORLD TRADE, GREATER COMPETITION, AND MORE OPEN MARKETS.

A REBIRTH OF BIPARTISAN COOPERATION, RESTORATION OF ECONOMIC GROWTH AND MILITARY DETERRENCE, AND A GROWING SPIRIT OF UNITY AMONG OUR PEOPLE AT HOME AND OUR ALLIES ABROAD UNDERLINE A FUNDAMENTAL AND FAR-REACHING CHANGE: THE UNITED STATES IS SAFER, STRONGER, AND MORE SECURE IN 1984 THAN BEFORE. WE CAN NOW MOVE WITH CONFIDENCE TO SEIZE THE OPPORTUNITIES FOR PEACE -- AND WE WILL.

TONIGHT, I WANT TO SPEAK TO THE PEOPLE OF THE SOVIET UNION TO TELL THEM: IT'S TRUE OUR GOVERNMENTS HAVE HAD SERIOUS DIFFERENCES. BUT OUR SONS AND DAUGHTERS HAVE NEVER FOUGHT EACH OTHER IN WAR. IF WE AMERICANS HAVE OUR WAY, THEY NEVER WILL.

PEOPLE OF THE SOVIET UNION, THERE IS ONLY ONE SANE POLICY, FOR YOUR COUNTRY AND MINE, TO PRESERVE OUR CIVILIZATION IN THIS MODERN AGE: A NUCLEAR WAR CANNOT BE WON AND MUST NEVER BE FOUGHT. THE ONLY VALUE IN OUR TWO NATIONS POSSESSING NUCLEAR WEAPONS IS TO MAKE SURE THEY WILL NEVER BE USED. BUT THEN WOULD IT NOT BE BETTER TO DO AWAY WITH THEM ENTIRELY?

PRESIDENT DWIGHT EISENHOWER, WHO FOUGHT BY YOUR SIDE IN WORLD WAR II, SAID THE ESSENTIAL STRUGGLE "IS NOT MERELY MAN AGAINST MAN OR NATION AGAINST NATION. IT IS MAN AGAINST WAR."

AMERICANS ARE PEOPLE OF PEACE. IF YOUR GOVERNMENT WANTS PEACE,

THERE WILL BE PEACE. WE CAN COME TOGETHER IN FAITH AND FRIENDSHIP TO BUILD A SAFER AND FAR BETTER WORLD FOR OUR CHILDREN AND OUR CHILDREN'S CHILDREN. AND THE WHOLE WORLD WILL REJOICE. THAT IS MY MESSAGE TO YOU.

*

AMERICA'S HEROES -- AMERICA'S VISION

*

SOME DAYS WHEN LIFE SEEMS HARD, AND WE REACH OUT FOR VALUES TO SUSTAIN US, OR A FRIEND TO HELP US, WE FIND A PERSON WHO REMINDS US WHAT IT MEANS TO BE AMERICANS.

SERGEANT STEPHEN TRUJILLO, A MEDIC IN THE 2ND RANGER BATTALION, 75TH INFANTRY, WAS IN THE FIRST HELICOPTER TO LAND AT THE COMPOUND HELD BY CUBAN FORCES ON GRENADA. HE SAW THREE OTHER HELICOPTERS CRASH. DESPITE THE IMMINENT EXPLOSION OF THE BURNING AIRCRAFT, HE NEVER HESITATED. HE RAN ACROSS 25 YARDS OF OPEN TERRAIN THROUGH ENEMY FIRE TO RESCUE WOUNDED SOLDIERS. HE DIRECTED TWO OTHER MEDICS, ADMINISTERED FIRST AID, AND RETURNED AGAIN AND AGAIN TO THE CRASH SITE TO CARRY HIS WOUNDED FRIENDS TO SAFETY.

SERGEANT TRUJILLO, YOU AND YOUR FELLOW SERVICEMEN AND WOMEN NOT ONLY SAVED INNOCENT LIVES, YOU SET A NATION FREE. YOU INSPIRE US AS A FORCE FOR FREEDOM, NOT TYRANNY; FOR DEMOCRACY, NOT DESPOTISM; AND YES, FOR PEACE NOT CONQUEST -- GOD BLESS YOU.

AND THEN THERE ARE UNSUNG HEROES: SINGLE PARENTS, COUPLES, CHURCH AND CIVIC VOLUNTEERS, THEIR HEARTS CARRY WITHOUT COMPLAINT THE PAINS OF FAMILY AND COMMUNITY PROBLEMS. THEY SOOTHE OUR SORROW, HEAL OUR WOUNDS, CALM OUR FEARS, AND SHARE OUR JOY.

A PERSON LIKE FATHER RITTER IS ALWAYS THERE. HIS COVENANT HOUSE PROGRAMS IN NEW YORK AND HOUSTON PROVIDE SHELTER AND HELP TO THOUSANDS OF FRIGHTENED AND ABUSED CHILDREN EACH YEAR. THE SAME IS TRUE OF DR. CHARLES CARSON. PARALYZED IN A PLANE CRASH, HE STILL BELIEVED NOTHING IS IMPOSSIBLE. TODAY, IN MINNESOTA, HE WORKS 80 HOURS A WEEK WITHOUT PAY, HELPING PIONEER THE FIELD OF COMPUTER-CONTROLLED WALKING. HE HAS GIVEN HOPE TO 500,000 PARALYZED AMERICANS THAT SOMEDAY THEY MAY WALK AGAIN.

HOW CAN WE NOT BELIEVE IN THE GOODNESS AND GREATNESS OF AMERICANS? HOW CAN WE NOT DO WHAT IS RIGHT AND NEEDED TO PRESERVE THIS LAST, BEST HOPE OF MAN ON EARTH?

AFTER ALL OUR STRUGGLES TO RESTORE AMERICA, TO REVIVE CONFIDENCE IN OUR COUNTRY AND HOPE FOR OUR FUTURE; AFTER ALL OUR HARD-WON VICTORIES EARNED THROUGH THE PATIENCE AND COURAGE OF EVERY CITIZEN -- WE CANNOT, MUST NOT AND WILL NOT TURN BACK, WE WILL FINISH OUR JOB. HOW COULD WE DO LESS; WE ARE AMERICANS.

CARL SANDBURG SAID, I SEE AMERICA, NOT IN THE SETTING SUN OF A BLACK NIGHT OF DESPAIR... I SEE AMERICA IN THE CRIMSON LIGHT OF A RISING SUN FRESH FROM THE BURNING CREATIVE HAND OF GOD.... I SEE GREAT DAYS AHEAD FOR MEN AND WOMEN OF WILL AND VISION.

I'VE NEVER FELT MORE STRONGLY THAT AMERICA'S BEST DAYS, AND DEMOCRACY'S BEST DAYS, LIE AHEAD. WE ARE A POWERFUL FORCE FOR GOOD. WITH FAITH AND COURAGE, WE CAN PERFORM GREAT DEEDS AND TAKE FREEDOM'S NEXT STEP. AND WE WILL. WE WILL CARRY ON THE TRADITIONS OF A GOOD AND WORTHY PEOPLE WHO HAVE BROUGHT LIGHT WHERE THERE WAS DARKNESS, WARMTH WHERE THERE WAS COLD, MEDICINES WHERE THERE WAS DISEASE, FOOD WHERE THERE WAS HUNGER, AND PEACE WHERE THERE WAS ONLY BLOODSHED.

LET US BE SURE THAT THOSE WHO COME AFTER WILL SAY OF US THAT, IN OUR TIME, WE DID EVERYTHING THAT COULD BE DONE: WE FINISHED THE RACE, WE KEPT THEM FREE, WE KEPT THE FAITH.

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OO TOKYO

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TO IMMEDIATE F C O

TELEGRAM NUMBER 296 OF 26 JANUARY

INFO IMMEDIATE UKMIS NEW YORK, PARIS, BONN, MOSCOW, UKDEL NATO, UKDIS GENEVA, TOKYO, ROME,

INFO SAVING ALL OTHER E C AND NATO POSTS, UKDEL OECD, CGS IN USA. MY I.P.T.

STATE OF THE UNION MESSAGE

1. THIS WAS AN EXTRAORDINARY PERFORMANCE BY A MASTER OF HIS ART. HE PLUCKED ARPEGGIOS ON HIS FOUR THEMES, WITH EMOTIONAL CADENZAS TO EACH ONE, WITH A FINAL CADENZA IN SALUTE TO SERGEANT TRUJILLO, STANDING ON THE BALCONY ALONGSIDE MRS REAGAN TO WHOM THE WHOLE HOUSE ROSE WITH THE ONLY STANDING OVATION DURING THE SPEECH ITSELF.
2. THIS YEAR, AS LAST, HE APPEALED FOR BIPARTISAN SUPPORT FROM BOTH HOUSES OF CONGRESS. THIS YEAR, UNLIKE LAST, HE GAVE EVERY APPEARANCE OF RUNNING FOR RE-ELECTION AS THE CANDIDATE OF ALL AMERICANS. THERE WAS SOMETHING FOR EVERYBODY, BASED ON THE UNDOUBTED BASIS OF ECONOMIC RECOVERY. FOR A VISION OF THE FUTURE, THERE WAS THE PROSPECT OF THE CONQUEST OF THE LAST FRONTIER: SPACE. FOR MIDDLE AMERICA, THERE WAS THE REAFFIRMATION OF THE FUNDAMENTAL VALUES OF FAMILY AND RELIGION WHICH HAD MADE AMERICA GREAT. FOR EVERYBODY, THERE WAS THE ASSURANCE THAT AMERICA WAS STRONG ENOUGH TO ENSURE PEACE AND SELF-CONFIDENT ENOUGH TO OFFER AN OLIVE BRANCE TO THE SOVIET UNION.
3. THE SPEECH WAS LITTERED WITH SIMPLE BUT SINCERE RHETORICAL FLOURISHES. "AMERICA IS BACK, STANDING TALL, LOOKING TO THE EIGHTIES WITH COURAGE, CONFIDENCE AND HOPE." "WE MUST BE CAUTIOUS IN CLAIMING THAT GOD IS ON OUR SIDE. BUT I THINK IT'S ALL RIGHT TO KEEP ASKING IF WE ARE ON HIS SIDE." "WE CAN DECIDE TOUGH ISSUES NOT BY WHO IS RIGHT, BUT BY WHAT IS RIGHT." "SERGEANT TRUJILLO, YOU AND YOUR FELLOW SERVICEMEN AND WOMEN NOT ONLY SAVED INNOCENT LIVES, YOU SET A NATION FREE." IN A DIRECT APPEAL TO THE SOVIET UNION "A NUCLEAR WAR CANNOT BE WON AND MUST NEVER BE FOUGHT."

~~LIVES, YOU SET A NATION FREE. IN A DIRECT APPEAL TO THE SOVIET UNION "A NUCLEAR WAR CANNOT BE WON AND MUST NEVER BE FOUGHT."~~
ALL THIS WAS REINFORCED BY PURPLE PASSAGES FROM ROOSEVELT,
EISENHOWER AND CARL SANDBERG.

4. THE SPEECH WAS NOT PERHAPS TO THE FASTIDIOUS BRITISH TASTE. BUT MY GUESS IS THAT IT WILL PLAY VERY WELL INDEED IN PEORIA. POLITICAL MASTERPIECE THEATRE, BEST VIEWED IN COLOR AND ON VIDEO. THE DEMOCRATS WILL BE WONDERING HOW ON EARTH THEY ARE GOING TO COMPETE.

FCO PASS SAVING TO :ANKARA, ATHENS, BRUSSELS, UKREP BRUSSELS,
COPENHAGEN, DUBLIN, LISBON, LUXEMBOURG, OTTAWA, OSLO, REYKJAVIK,
THE HAGUE, UKDEL OECD.

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Mr J. THOMAS

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DESKBY 260600Z (FOR RESIDENT CLERK)

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TO IMMEDIATE F C O

TELEGRAM NUMBER 295 OF 26 JANUARY

INFO IMMEDIATE UKMIS NEW YORK, PARIS, BONN, MOSCOW, UKDEL NATO,
UKDIS GENEVA, TOKYO, ROME,

INFO SAVING ALL OTHER E C AND NATO POSTS, UKDEL OECD, CGS IN USA.

PRESIDENT REAGAN'S STATE OF THE UNION ADDRESS

1. THE PRESIDENT DELIVERED HIS ANNUAL STATE OF THE UNION ADDRESS TO CONGRESS ON THE EVENING OF 25 JANUARY. THE ADDRESS, WHICH WAS INTERRUPTED BY APPLAUSE 42 TIMES, REAFFIRMED THE ADMINISTRATION'S COMMITMENT TO THE POLICIES PURSUED SINCE 1981 AND SET OUT THE PRESIDENT'S PROGRAMME FOR THE REMAINDER OF THE 98TH CONGRESS AND THE FINAL YEAR OF HIS PRESENT TERM. HE ADDRESSED HIMSELF TO FOUR THEMES:-

1. ECONOMIC RECOVERY
2. CONQUEST OF THE NEXT FRONTIER: SPACE
3. REVERSION TO TRADITIONAL VALUES IN THE FAMILY ETC
4. PEACE

MAIN POINTS AS FOLLOWS.

(A) GENERAL

2. IN HIS OPENING REMARKS THE PRESIDENT SAID THAT, DESPITE HIS DIFFERENCES WITH CONGRESS OVER THE PAST YEAR, BI-PARTISAN COOPERATION HAD STEMMED THE NATION'S DECLINE. AT THE BEGINNING OF THE DECADE AMERICA HAD FACED ITS WORST CRISIS IN ITS POST-WAR HISTORY, AT HOME AND ABROAD. NOW QUOTE AMERICA IS BACK - STANDING TALL, LOOKING TO THE 80S WITH COURAGE, CONFIDENCE AND HOPE UNQUOTE.

3. ECONOMIC LIFE HAD BEEN REVIVED BY REDUCING THE BURDEN OF TAXATION TAXATION, CRUSHING INFLATION, CUTTING INTEREST RATES AND UNEMPLOY-

~~ECONOMIC LIFE HAD BEEN REVIVED BY REDUCING THE BURDEN OF TAXATION, CRUSHING INFLATION, CUTTING INTEREST RATES AND UNEMPLOYMENT, AND BY ECONOMIC DE-REGULATION OF KEY INDUSTRIES. ONE OF THE BEST RECOVERIES IN DECADES WAS NOW UNDER WAY.~~

4. THERE HAD ALSO BEEN A REDEDICATION TO BASIC VALUES AT HOME AND AT WORK. AND AMERICA'S RENEWED STRENGTH HAD LED TO FRESH OPPORTUNITIES ABROAD. THE WORLD ECONOMIC RECOVERY HAD BEGUN IN THE UNITED STATES.

(B) THE ECONOMY

5. VIGOROUS ECONOMIC GROWTH REQUIRED COMMON SENSE IN FEDERAL BUDGETING. FEDERAL DEFICITS MUST BE BROUGHT DOWN. A START COULD BE MADE BY LIMITING THE SIZE OF GOVERNMENT. FEDERAL REGULATIONS HAD ALREADY BEEN SIGNIFICANTLY REDUCED AND A PRESIDENTIAL COMMISSION HAD MADE DETAILED RECOMMENDATIONS ON REDUCING WASTE THROUGHOUT THE ADMINISTRATION.

6. THOSE WHO URGED REDUCING DEFENCE EXPENDITURE TO ACHIEVE BUDGET SAVINGS WERE MISTAKEN. DEFENCE SPENDING NOW WAS LESS THAN DURING THE KENNEDY ADMINISTRATION AND BEFORE. THE RESPONSIBILITY FOR U.S. SECURITY COULD NOT BE SHIRKED.

7. THE PRESIDENT ACKNOWLEDGED FEARS THAT GOVERNMENT BORROWING TO FUND THE DEFICIT COULD INHIBIT RECOVERY, BUT STRESSED THAT, WHETHER THE GOVERNMENT BORROWED OR INCREASED TAXES, THE SAME AMOUNT OF MONEY WOULD BE TAKEN FROM THE PRIVATE SECTOR.

8. THE PRESIDENT MADE THE FOLLOWING PROPOSALS TO REDUCE THE DEFICIT:

- (A) THE BUDGET TO BE SUBMITTED ON 1 FEBRUARY WOULD INCLUDE A NUMBER OF MEASURES WHICH WOULD REDUCE THE DEFICIT OVER THE NEXT FIVE YEARS, MANY OF THEM QUOTE UNFINISHED BUSINESS UNQUOTE FROM THE LAST BUDGET.
- (B) THE PRESIDENT SUGGESTED THAT CONGRESSIONAL AND ADMINISTRATION REPRESENTATIVES SHOULD MEET TO AGREE A BI-PARTISAN DEFICIT REDUCTION PLAN.
- (C) A FULL SCALE PLAN WOULD TAKE TIME. BUT THE PRESIDENT BELIEVED THAT THERE WAS A BASIS FOR AGREEMENT ON A QUOTE DOWN-PAYMENT UNQUOTE, INVOLVING DEFICIT REDUCTIONS OF ABOUT U.S. DOLLARS 100 BILLION OVER THE NEXT THREE YEARS. THIS COULD INCLUDE SOME OF THE LESS CONTENTIOUS SPENDING CUTS COMBINED WITH MEASURES TO CLOSE TAX LOOPHOLES AND TO REDUCE WASTE. A START SHOULD ALSO BE MADE NOW ON EXPLORING HOW TO MAKE STRUCTURAL REFORMS TO CURB THE BUILT-IN GROWTH OF SPENDING.
- (D) THE PRESIDENT PROPOSED ONE SPECIFIC IMPROVEMENT IN THE BUDGET PROCESS. - INTRODUCTION OF THE QUOTE LINE-ITEM VETO UNQUOTE WHICH WOULD ENABLE HIM TO VETO INDIVIDUAL ITEMS IN SPENDING LEGISLATION WITHOUT BLOCKING THE ENTIRE BILL. THIS COULD BE ACHIEVED BY CONSTITUTIONAL AMENDMENT. THE PRESIDENT ALSO REAFFIRMED HIS SUPPORT FOR AN AMENDMENT MANDATING A BALANCED BUDGET.
- (E) INCREASING TAXES WAS A QUOTE BAND-AID SOLUTION UNQUOTE WHICH POSED A REAL THREAT TO ECONOMIC RECOVERY. REFORM OF THE TAX SYSTEM WAS A BETTER WAY. THE TREASURY SECRETARY HAD BEEN ASKED TO RECOMMEND, BY DECEMBER 1984, A PLAN TO MAKE THE TAX SYSTEM SIMPLER AND FAIRER, WHICH COULD RESULT IN DEFEATING THE UNDERGROUND ECONOMY AND BROADENING THE TAX BASE, THUS

SAVINGS WERE MISTAKEN. DEFENCE SPENDING NOW WAS LESS THAN DURING THE KENNEDY ADMINISTRATION AND BEFORE. THE RESPONSIBILITY FOR U.S. SECURITY COULD NOT BE SHIRKED.

15. THE PRESIDENT SAID THAT N.A.T.O. WAS STRONG. QUOTE 1983 WAS A BANNER YEAR FOR POLITICAL COURAGE UNQUOTE. PARTNERSHIPS IN THE FAR EAST HAD BEEN STRENGTHENED. THE ADMINISTRATION WAS COMMITTED TO DIALOGUE, DETERRENCE AND PROMOTING PROSPERITY. THE ADMINISTRATION ~~WOULD WORK WITH TRADING PARTNERS FOR A NEW ROUND OF NEGOTIATIONS IN~~ SUPPORT OF FREER WORLD TRADE, GREATER COMPETITION AND MORE OPEN MARKETS.

16. IN A PASSAGE ADDRESSED DIRECTLY TO THE PEOPLE OF THE SOVIET UNION, THE PRESIDENT SAID THAT A NUCLEAR WAR COULD NOT BE WON AND MUST NEVER BE FOUGHT. AMERICANS WERE PEOPLE OF PEACE. IF THE SOVIET GOVERNMENT WANTED PEACE, THERE WOULD BE PEACE.

17. IN HIS CONCLUDING REMARKS ON UNSUNG CONTEMPORARY AMERICAN HEROES, THE PRESIDENT COMMENDED (TO A STANDING OVATION) THE BRAVERY OF A U.S. SERVICEMAN ON THE FIRST HELICOPTER INTO GRENADA. U.S. SERVICEMEN HAD QUOTE SET THE NATION FREE UNQUOTE. OVERALL, A FAR-REACHING CHANGE HAD BEEN NOTED: THE UNITED STATES WAS SAFER, STRONGER AND MORE SECURE IN 1984 THAN EVER BEFORE.

18. SEE MY I.F.T. FOR IMPRESSIONISTIC COMMENT. FURTHER CONSIDERED COMMENT WILL FOLLOW.

19. RESIDENT CLERK PLEASE PASS TO NO 10 DOWNING STREET.

F C O PLEASE PASS SAYING TO: ANKARA, ATHENS, BRUSSELS, UKREP BRUSSELS , COPENAHGEN, DUBLIN, LISBON, LUXEMBOURG, OTTAWA, OSLO, REYKJAVIK, THE HAGUE, UKDEL OECD.

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~~ASSED TO RECOMMEND, BY DECEMBER 1984, A PLAN TO MAKE THE TAX SYSTEM SIMPLER AND FAIRER, WHICH COULD RESULT IN DEFEATING THE UNDERGROUND ECONOMY AND BROADENING THE TAX BASE, THUS FACILITATING PERSONAL TAX REDUCTIONS.~~

(C) SPACE AND THE ENVIRONMENT

9. SPACE WAS THE NEXT AMERICAN FRONTIER. THE PRESIDENT ANNOUNCED THAT HE HAD DIRECTED N.A.S.A. TO DEVELOP, WITHIN A DECADE, A PERMANENTLY MANNED SPACE STATION. THIS WOULD SIGNIFICANTLY HELP VARIOUS TYPES OF SCIENTIFIC RESEARCH. OTHER COUNTRIES WOULD BE INVITED TO PARTICIPATE. THE ADMINISTRATION WOULD ALSO BE TAKING INITIATIVES IN THE AREA OF SPACE TRANSPORTATION.

10. THE PRESIDENT RENEWED HIS COMMITMENT TO THE PRESERVATION OF THE ENVIRONMENT. HE HAD REQUESTED FOR THE ENVIRONMENTAL PROTECTION AGENCY ONE OF THE LARGEST PERCENTAGE BUDGET INCREASES.

(D) SOCIAL POLICIES AND VALUES.

11. THE PRESIDENT REAFFIRMED HIS BELIEF IN THE NEED TO RESTORE EXCELLENCE AND DISCIPLINE IN EDUCATION AND REITERATED HIS SUPPORT FOR TUITION TAX CREDITS TO HELP PARENTS PROVIDING PRIVATE SCHOOL TUITION AND FOR PRAYER IN PUBLIC SCHOOLS. HE ALSO EXPRESSED THE HOPE THAT POSITIVE SOLUTIONS TO ABORTION WOULD BE FOUND AND PLEDGED THE ADMINISTRATION TO INTENSIFY ITS DRIVE AGAINST CRIME.

(E) INTERNATIONAL AFFAIRS

12. THE UNITED STATES WAS DEDICATED TO DEFEND FREEDOM AND DEMOCRACY AND HAD NO TERRITORIAL AMBITIONS. THE FUTURE WAS BEST DECIDED BY BALLOTS, NOT BULLETS. A BI-PARTISAN APPROACH WAS THE BEST WAY OF SECURING AMERICAN STRENGTH, FREEDOM AND PEACE. THE PRESIDENT SPOKE OF THE FOLLOWING AGENDA IN INTERNATIONAL AFFAIRS:

(A) THE ESTABLISHMENT OF A MORE STABLE BASIS FOR PEACEFUL RELATIONS WITH THE SOVIET UNION.

(B) STRENGTHENING ALLIED RELATIONSHIPS.

(C) REAL AND EQUITABLE NUCLEAR REDUCTIONS.

(D) REINFORCEMENT OF THE ADMINISTRATION'S PEACEMAKING EFFORTS IN THE MIDDLE EAST, CENTRAL AMERICA AND SOUTHERN AFRICA.

(E) ASSISTING DEVELOPING COUNTRIES, PARTICULARLY AMERICA'S HEMISPHERIC NEIGHBOURS.

(F) THE DEVELOPMENT OF DEMOCRATIC INSTITUTIONS GLOBALLY.

13. THE PRESIDENT URGED CONGRESS TO IMPLEMENT THE RECOMMENDATIONS OF THE KISSINGER COMMISSION.

14. ON THE LEBANON, THE PRESIDENT SAID THAT THE CONGRESSIONAL RESOLUTION ON THE M.N.F. WAS SERVING THE CAUSE OF PEACE. PROGRESS WAS BEING MADE IN THE LEBANON. THE MARINES WERE HELPING THE LEBANESE TO BREAK THEIR CYCLE OF DESPAIR. THE UNITED STATES COULD NOT BE DRIVEN FROM ITS OBJECTIVES BY STATE-SPONSORED TERRORISM. TERRORISM DEMANDED INTERNATIONAL ATTENTION. THE PRESIDENT WOULD SHORTLY BE PUTTING FORWARD LEGISLATIVE PROPOSALS TO COMBAT TERRORISM AND WOULD SEEK SUPPORT FROM THE ALLIES FOR CONCERTED ACTION.

15. THE PRESIDENT SAID THAT N.A.T.O. WAS STRONG. QUOTE 1983 WAS A BANNER YEAR FOR POLITICAL COURAGE UNQUOTE. PARTNERSHIPS IN THE FAR EAST HAD BEEN STRENGTHENED. THE ADMINISTRATION WAS COMMITTED TO DIALOGUE, DETERRENCE AND PROMOTING PROSPERITY. THE ADMINISTRATION WOULD WORK WITH TRADING PARTNERS FOR A NEW ROUND OF NEGOTIATIONS IN

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TELEGRAM NUMBER 3745 OF 14 DECEMBER

INFO UKDEL NATO, PARIS, BONN, MOSCOW.

INFO SAVING UKMIS NEW YORK, ROME, ALL CONSULATES GENERAL IN THE UNITED STATES.

PRESIDENT REAGAN AND THE US POLITICAL SCENE

SUMMARY

1. THE PRESIDENT IS WIDELY EXPECTED TO ANNOUNCE HIS CANDIDACY FOR A SECOND TERM AT THE END OF JANUARY. HIS STANDING REMAINS HIGH. MONDALE HAS RETAINED HIS LEAD IN THE DEMOCRATIC RACE.

DETAIL

2. EVER SINCE THE PRESIDENT DECIDED TO AVOID DECLARING HIS INTENTIONS THIS AUTUMN, IT HAS LOOKED LIKELY THAT HE WOULD DEFER A FORMAL ANNOUNCEMENT OF HIS CANDIDACY UNTIL SHORTLY AFTER HIS STATE OF THE UNION ADDRESS IN LATE JANUARY 1984. TODAY'S WASHINGTON POST CARRIES A REPORT BY CANNON, A JOURNALIST WITH EXCELLENT WHITE HOUSE CONTACTS, THAT THE PRESIDENT IS LIKELY TO ANNOUNCE ON 29 JANUARY. OUR WHITE HOUSE CONTACTS HAVE CONFIRMED PRIVATELY THAT THE REPORT IS ACCURATE. AT A PRESS CONFERENCE TODAY THE PRESIDENT SAID THAT ALL WOULD BECOME CLEAR ON 29 JANUARY.

3. THE PRESIDENT'S APPROVAL RATING IN THE POLLS REMAINS OVER 60 PERCENT, THE HIGHEST SINCE THE SUMMER OF 1981. IT HAS NOT DROPPED OFF IN THE AFTERMATH OF THE INTERVENTION IN GRENADA. NOR HAS THE PRESIDENT'S STANDING BEEN DAMAGED BY THE SOVIET WALKOUT AT GENEVA OR, SO FAR, BY EVENTS IN THE LEBANON.

4. THE PRESIDENT CONTINUES TO MIX OVERTLY POLITICAL ENGAGEMENTS (WITH MINORITY, BUSINESS AND OTHER GROUPS) INTO HIS OFFICIAL SCHEDULE. FOR EXAMPLE, HE RECENTLY APPEARED AT WASHINGTON HANNUKAH CELEBRATIONS AT WHICH, WITH AN EYE ON THE JEWISH VOTE, HE REAFFIRMED THE ADMINISTRATION'S STRONG SUPPORT FOR ISRAEL.

5. THE PRESIDENT'S STAFF SENSIBLY, ARE REACTING VERY CAUTIOUSLY TO THE POLLS. PRIVATE WHITE HOUSE SAMPLINGS SHOWING A SUBSTANTIAL (UP TO 16 PERCENT) LEAD OVER MONDALE AND GLENN. BUT THE KEY DOMESTIC POLITICAL ADVISERS REALISE THAT NEXT YEAR'S ELECTION WILL, IN JAMES BAKER'S WORDS, BE A "CLOSE, TOUGH RACE". THE PRESIDENT'S COUNSELLOR, ED MEESE, HAS JUST DISCOVERED THE CONTINUING STRENGTH OF FEELING ON THE "FAIRNESS" ISSUE IN THE PREDICTABLE PUBLIC REACTION TO HIS REMARK THAT HE HAD NEVER SEEN AUTHORITATIVE FIGURES THAT THERE WERE HUNGRY CHILDREN IN THE UNITED STATES AND THAT SOME PEOPLE VISITED SOUP KITCHENS ONLY BECAUSE THE FOOD WAS FREE. REAGAN REMAINS VULNERABLE ON THESE SOCIAL

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ISSUES, ON WHICH THE DEMOCRATS HAVE CONCENTRATED THEIR FIRE. THE PRESIDENT'S ADVISERS AND CAMPAIGN STAFF ARE ALSO VERY WARY OF FOREIGN POLICY BANANA SKINS BETWEEN NOW AND THE ELECTION. BAKER AND DARMAN PRIVATELY EXPRESS MISGIVINGS ABOUT THE DOMESTIC POLITICAL CONSEQUENCES OF CONTINUING INVOLVEMENT IN LEBANON. THE PRESIDENT, HOWEVER, IS SAYING THAT HE WILL NOT BE DEFLECTED BY DOMESTIC POLITICAL CONSIDERATIONS FROM DOING WHAT HE BELIEVES TO BE RIGHT.

6. MEANWHILE, MONDALE CONTINUES TO PICK UP USEFUL INDIVIDUAL AND GROUP ENDORSEMENTS. LAST WEEKEND HE WAS ENDORSED BY THE NATIONAL ORGANISATION OF WOMEN AND THE BLACK ALABAMA DEMOCRATIC CONFERENCE. HE HAS INCREASED HIS LEAD AS THE DEMOCRATIC FRONT RUNNER, BUT CONTINUES TO BE CRITICISED BY GLENN AND HOLLINGS FOR WEAK POLICIES ON DEFENCE AND PUBLIC SPENDING OF A KIND WHICH, THEY ARGUE, LED THE DEMOCRATS TO DEFEAT IN 1980.

7. THE POLITICAL ESTABLISHMENT HERE, THEREFORE, IS MORE THAN EVER CONVINCED THAT PRESIDENT RAGAN WILL BE A CANDIDATE IN 1984. THE PRESIDENT HAS STILL TOLD NO ONE DEFINITELY THAT HE WILL RUN. THE POSSIBILITY THAT HE MIGHT SPRING A SURPRISE AS PRESIDENT JOHNSON DID, CAN STILL NOT BE ENTIRELY EXCLUDED. BUT HE IS NOW COMMITTED TO MAKING HIS INTENTIONS CLEAR ON 29 JANUARY, AND THE ENTIRE WHITE HOUSE STAFF ARE EXPECTING HIM TO RUN. HIS ADVISERS AND CAMPAIGN STAFF WILL TRY TO KEEP HIM TO THAT SCHEDULE, AS THE PRESIDENT IS GOING TO BE NEEDED ON THE CAMPAIGN TRAIL TO STIMULATE GRASS ROOTS SUPPORT IN WHAT THEY EXPECT TO BE AN ELECTORAL CLOSE CALL.

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TO IMMEDIATE FCO
TELEGRAM NUMBER 3005 OF 17 OCT
INFO PRIORITY UKMIS NEW YORK
INFO SAVING BONN, PARIS, UKDEL NATO
MY TELNO 2983: NATIONAL SECURITY ADVISER

1. THE PRESIDENT ANNOUNCED THIS AFTERNOON THE APPOINTMENT OF ROBERT (BUD) MCFARLANE AS NATIONAL SECURITY ADVISER, SUCCEEDING JUDGE CLARK.
2. MCFARLANE WAS BORN IN 1937. A GRADUATE OF THE US NAVAL ACADEMY, HE SPENT TWENTY YEARS IN THE MARINE CORPS BEFORE RETIRING FROM ACTIVE DUTY AS A LIEUTENANT COLONEL. HE CAME TO WASHINGTON TO WORK FOR THE NIXON ADMINISTRATION AS A COUNSEL TO THE PRESIDENT FOR LEGISLATIVE AFFAIRS IN 1971. FROM 1973-75 HE WAS MILITARY ASSISTANT TO HENRY KISSINGER. HE THEN BECAME SPECIAL ASSISTANT FOR NATIONAL SECURITY UNDER BRENT SCOWCROFT, WHEN THE LATTER SUCCEEDED KISSINGER AS NATIONAL SECURITY ADVISER. DURING THE CARTER PERIOD, HE SERVED AS A SENIOR STAFF MEMBER ON THE SENATE ARMED SERVICES COMMITTEE. HE WAS THEN APPOINTED COUNSELLOR AT THE STATE DEPARTMENT UNDER AL HAIG, BEFORE BECOMING DEPUTY NATIONAL SECURITY ADVISER.
3. MCFARLANE'S APPOINTMENT IS A VICTORY FOR THE PRAGMATISTS AND PROFESSIONALS, AND INDEED FOR COMMONSENSE. MRS KIRKPATRICK APPEARS TO HAVE LOBBIED HARD FOR THE POST. CERTAINLY HER FRIENDS WERE ACTIVE ON HER BEHALF. MCFARLANE'S APPOINTMENT, NEEDLESS TO SAY, HAS BEEN GREETED WITH RELIEF IN THE STATE DEPARTMENT AND WILL CERTAINLY GET A GOOD PRESS.
4. MCFARLANE WILL CONTINUE TO OPERATE, AS HE ALWAYS HAS DONE HERE, EFFECTIVELY AND BEHIND THE SCENES. LIKE CLARK, HE IS UNLIKELY TO RECEIVE VISITORS, ON THE GROUNDS THAT THIS WOULD BE TAKING OVER PART OF THE FUNCTIONS OF THE STATE DEPARTMENT. HE IS ONE OF THE FEW WASHINGTON OFFICIALS CAREFUL TO KEEP THE PRESS AT ARMS LENGTH. HIS DEALINGS WITH THEM HAVE BEEN CONFINED TO OCCASIONAL FACTUAL BRIEFINGS ON THE BACKGROUND TO COMPLEX ARMS CONTROL ISSUES. A TEAM PLAYER, HE IS VISIBLY DISTRESSED BY THE LEAKS, DISPLAYS OF DISARRAY AND RANDOM STATEMENTS BY LESSER ADMINISTRATION SPOKESMEN ETC. WHICH ACCOMPANY THE CONDUCT OF BUSINESS IN THIS TOWN. NO

~~MEN ETC, WHICH ACCOMPANY THE CONDUCT OF BUSINESS IN THIS TOWN.~~ NO SOFT-LINER ON DEALINGS WITH THE SOVIET UNION, HE IS A PRAGMATIST, DEVOID OF SYMPATHY FOR IDEOLOGUES OF THE PERLE/IKLE BRAND, WHO UNSUCCESSFULLY OPPOSED HIS APPOINTMENT.

5. MCFARLANE HAS A THOROUGH KNOWLEDGE OF POLITICO-MILITARY MATTERS. HE WAS INSTRUMENTAL EARLIER THIS YEAR IN HELPING TO MOVE FORWARD THE US ADMINISTRATION'S POSITIONS BOTH IN INF AND START. AS THE PRESIDENT'S ENVOY IN THE MIDDLE EAST, HE WAS LESS WELL CAST. NOT SURPRISINGLY, IT TOOK HIM SOME TIME TO COME TO GRIPS WITH THE COMPLEXITIES OF THE SITUATION IN LEBANON. HE HAD A TENDENCE TO SEE THE LEBANON CRISIS PREDOMINANTLY IN EAST/WEST TERMS; AND INITIALLY WAS TEMPTED TO LOOK FOR A CLEAN CUT SOLUTION THROUGH INCREASED US INVOLVEMENT. BUT AS HE ACQUIRED MORE EXPERIENCE, HE DID A GOOD JOB IN WORKING STEADILY AND PATIENTLY FOR A CEASE FIRE IN DIFFICULT CIRCUMSTANCES. THIS WILL STAND HIM IN GOOD STEAD AS HE PICKS UP HIS THREADS IN WASHINGTON AND LOOKS TOWARDS THE NEXT STAGE.

6. THERE WILL BE SOME LAMENTATIONS FROM THE RIGHT WING; AND MOVES MAY BE NEEDED TO PLACATE THEM, REPUBLICAN COMMENTATORS HAVE BEGUN TO ASK WHAT HAPPENED TO THE REAGANAUTS. WEINBERGER IS SAID TO HAVE EXPRESSED SOME CONCERN THAT MCFARLANE WOULD NOT HAVE THE SAME AUTHORITY OR ACCESS TO THE PRESIDENT AS CLARK, AN OLD ASSOCIATE. CERTAINLY HE WILL HAVE TO USE HIS ELBOWS IF HE IS TO GET FOREIGN POLICY POINTS ACROSS AT A TIME WHEN DOMESTIC CONSIDERATIONS ARE LIKELY INCREASINGLY TO BECOME THE PRIORITY. BUT THE PRESIDENT HAS ENTIRE CONFIDENCE IN HIM AND KNOWS THAT HE CAN RELY ON HIS LOYALTY. AND, WHILE SOME DIFFERENCES WILL BE INEVITABLE (MY TUR), HE WILL DO HIS UTMOST TO AVOID BEING DRAWN INTO SERIOUS RIVALRY WITH SHULTZ AS THE PRINCIPLE ARCHITECT OF U.S. FOREIGN POLICY.

7. THE APPOINTMENT IS GOOD NEWS FROM OUR POINT OF VIEW. MCFARLANE WILL BE A STEADYING INFLUENCE AT THE WHITE HOUSE AND HAS BEEN UNFAILINGLY FRIENDLY AND WELL DISPOSED TOWARDS BRITAIN. OUR DEALINGS WITH HIM ON SOME SENSITIVE ISSUES HAVE LEFT US WITH THE HIGHEST REGARD FOR HIS PROFESSIONALISM, HIS JUDGEMENT AND HIS STRAIGHT-FORWARDNESS.

FCO PASS SAVING BONN, PARIS, UKDEL NATO.

WRIGHT

NNNN

USA



OFFICIAL TEXT

Wednesday, January 26th, 1983

UNITED STATES INFORMATION SERVICE, U.S. EMBASSY, 55/56 UPPER BROOK STREET, LONDON W1A 2LH

P R E S I D E N T R E A G A N ' S

S T A T E O F T H E U N I O N

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FOLLOWING IS THE TEXT, AS PREPARED FOR DELIVERY, OF
PRESIDENT REAGAN'S 1983 STATE OF THE UNION ADDRESS, DELIVERED
TO THE U.S. CONGRESS JANUARY 25:

BEGIN TEXT

THIS SOLEMN OCCASION MARKS THE 196TH TIME THAT A PRESIDENT OF THE UNITED STATES HAS REPORTED ON THE STATE OF THE UNION SINCE GEORGE WASHINGTON FIRST DID SO IN 1790. THAT IS A LOT OF REPORTS, BUT THERE IS NO SHORTAGE OF NEW THINGS TO SAY ABOUT THE STATE OF THE UNION. THE VERY KEY TO OUR SUCCESS HAS BEEN OUR ABILITY, FOREMOST AMONG NATIONS, TO PRESERVE OUR LASTING VALUES BY MAKING CHANGE WORK FOR US RATHER THAN AGAINST US.

I WOULD LIKE TO TALK WITH YOU THIS EVENING ABOUT WHAT WE CAN DO TOGETHER -- NOT AS REPUBLICANS AND DEMOCRATS, BUT AS AMERICANS -- TO MAKE TOMORROW'S AMERICA HAPPY AND PROSPEROUS AT HOME, STRONG AND RESPECTED ABROAD, AND AT PEACE IN THE WORLD.

AS WE GATHER HERE TONIGHT, THE STATE OF OUR UNION IS STRONG, BUT OUR ECONOMY IS TROUBLED. FOR TOO MANY OF OUR FELLOW CITIZENS -- FARMERS, STEEL AND AUTO WORKERS, LUMBERMEN, BLACK TEENAGERS, AND WORKING MOTHERS -- THIS IS A PAINFUL PERIOD. WE MUST ALL DO EVERYTHING IN OUR POWER TO BRING THEIR ORDEAL TO AN END. IT HAS FALLEN TO US, IN OUR TIME, TO UNDO DAMAGE THAT WAS A LONG TIME IN THE MAKING, AND TO BEGIN THE HARD BUT NECESSARY TASK OF BUILDING A BETTER FUTURE FOR OURSELVES AND OUR CHILDREN.

WE HAVE A LONG WAY TO GO, BUT THANKS TO THE COURAGE, PATIENCE AND STRENGTH OF OUR PEOPLE, AMERICA IS ON THE MEND.

LET ME GIVE YOU JUST ONE IMPORTANT REASON WHY I BELIEVE THIS -- IT INVOLVES MANY MEMBERS OF THIS BODY.

SAVING SOCIAL SECURITY

JUST TEN DAYS AGO, AFTER MONTHS OF DEBATE AND DEADLOCK, THE BIPARTISAN COMMISSION ON SOCIAL SECURITY ACCOMPLISHED THE SEEMINGLY IMPOSSIBLE.

SOCIAL SECURITY, AS SOME OF US HAD WARNED FOR SO LONG, FACED DISASTER. I, MYSELF, HAVE BEEN SPEAKING ABOUT THIS PROBLEM FOR ALMOST 30 YEARS. AS 1983 BEGAN, THE SYSTEM STOOD ON THE BRINK OF BANKRUPTCY, A DOUBLE VICTIM OF OUR ECONOMIC ILLS. FIRST, A DECADE OF RAMPANT INFLATION DRAINED ITS RESERVES AS WE TRIED TO PROTECT BENEFICIARIES FROM THE SPIRALING COST OF LIVING. THEN THE RECESSION AND THE SUDDEN END OF INFLATION WITHERED THE EXPANDING WAGE BASE AND INCREASING REVENUES THE SYSTEM NEEDS TO SUPPORT THE 36 MILLION AMERICANS WHO DEPEND ON IT.

WHEN THE SPEAKER OF THE HOUSE, THE SENATE MAJORITY LEADER AND I FORMED THE BIPARTISAN COMMISSION ON SOCIAL SECURITY, PUNDITS AND EXPERTS PREDICTED THAT PARTY DIVISIONS AND CONFLICTING INTERESTS WOULD PREVENT THE COMMISSION FROM AGREEING ON A PLAN TO SAVE SOCIAL SECURITY.

WELL, SOMETIMES, EVEN HERE IN WASHINGTON, THE CYNICS ARE WRONG. THROUGH COMPROMISE AND COOPERATION, THE MEMBERS OF THE COMMISSION OVERCAME THEIR DIFFERENCES AND ACHIEVED A FAIR, WORKABLE PLAN. THEY PROVED THAT, WHEN IT COMES TO THE NATIONAL WELFARE, AMERICANS CAN STILL PULL TOGETHER FOR THE COMMON GOOD.

TONIGHT, I AM ESPECIALLY PLEASED TO JOIN WITH THE SPEAKER AND THE SENATE MAJORITY LEADER IN URGING THE CONGRESS TO ENACT THIS PLAN WITHIN THE NEXT HUNDRED DAYS.

THERE ARE ELEMENTS IN IT, OF COURSE, THAT NONE OF US PREFERS, BUT, TAKEN TOGETHER, IT FORMS A PACKAGE ALL OF US CAN SUPPORT. IT ASKS FOR SOME SACRIFICE BY ALL -- THE SELF-EMPLOYED, BENEFICIARIES, WORKERS, NEW GOVERNMENT EMPLOYEES, AND THE BETTER-OFF AMONG THE RETIRED -- BUT IT IMPOSES AN UNDUE ON NONE. AND, IN SUPPORTING IT, WE KEEP AN IMPORTANT PLEDGE TO THE AMERICAN PEOPLE: THE INTEGRITY OF THE SOCIAL SECURITY SYSTEM WILL BE PRESERVED -- AND NO ONE'S PAYMENTS WILL BE REDUCED.

THE COMMISSION'S PLAN WILL DO THE JOB. INDEED, IT MUST DO THE JOB. WE OWE IT TO TODAY'S OLDER AMERICANS -- AND TODAY'S YOUNGER WORKERS.

SO, BEFORE WE GO ANY FURTHER, I ASK YOU TO JOIN WITH ME IN SALUTING THE MEMBERS OF THE COMMISSION WHO ARE HERE TONIGHT, AND SENATE MAJORITY LEADER HOWARD BAKER AND SPEAKER TIP O'NEILL, FOR A JOB WELL DONE.

I HOPE AND PRAY THE BIPARTISAN SPIRIT THAT GUIDED YOU IN THIS ENDEAVOR WILL INSPIRE ALL OF US AS WE FACE THE CHALLENGES OF THE YEAR AHEAD.

A TIME OF TRANSITION AND RENEWAL

NEARLY HALF A CENTURY AGO, IN THIS CHAMBER, ANOTHER AMERICAN PRESIDENT, FRANKLIN DELANO ROOSEVELT, IN HIS SECOND STATE OF THE UNION MESSAGE, URGED AMERICA TO LOOK TO THE FUTURE -- TO MEET THE CHALLENGE OF CHANGE AND THE NEED FOR LEADERSHIP THAT LOOKS FORWARD, NOT BACKWARD.

"THROUGHOUT THE WORLD," HE SAID, CHANGE IS THE ORDER OF THE DAY. IN EVERY NATION ECONOMIC PROBLEMS LONG IN THE MAKING HAVE BROUGHT CRISES OF MANY KINDS FOR WHICH THE MASTERS OF OLD PRACTICE AND THEORY WERE UNPREPARED."

HE ALSO REMINDED US THAT, "THE FUTURE LIES WITH THOSE WISE POLITICAL LEADERS WHO REALIZE THAT THE GREAT PUBLIC IS INTERESTED MORE IN GOVERNMENT THAN IN POLITICS."

SO, LET US, IN THESE NEXT TWO YEARS -- MEN AND WOMEN OF BOTH PARTIES AND EVERY POLITICAL SHADE -- CONCENTRATE ON THE LONG-RANGE, BIPARTISAN RESPONSIBILITIES OF GOVERNMENT, NOT THE SHORT-TERM TEMPTATIONS OF PARTISAN POLITICS.

THE PROBLEMS WE INHERITED WERE FAR WORSE THAN MOST INSIDE AND OUT OF GOVERNMENT HAD EXPECTED; THE RECESSION WAS DEEPER THAN MOST INSIDE AND OUT OF GOVERNMENT HAD PREDICTED. CURING THOSE PROBLEMS HAS TAKEN MORE TIME, AND A HIGHER TOLL, THAN ANY OF US WANTED. UNEMPLOYMENT IS FAR TOO HIGH. PROJECTED FEDERAL SPENDING -- IF GOVERNMENT REFUSES TO TIGHTEN ITS OWN BELT -- WILL ALSO BE FAR TOO HIGH AND COULD WEAKEN AND SHORTEN THE ECONOMIC RECOVERY NOW UNDERWAY.

THIS RECOVERY WILL BRING WITH IT A REVIVAL OF ECONOMIC CONFIDENCE AND SPENDING FOR CONSUMER ITEMS AND CAPITAL GOODS -- THE STIMULUS WE NEED TO RESTART OUR STALLED ECONOMIC ENGINES. THE AMERICAN PEOPLE HAVE ALREADY STEPPED UP THEIR RATE OF SAVING, ASSURING THAT THE FUNDS NEEDED TO MODERNIZE OUR FACTORIES AND IMPROVE OUR TECHNOLOGY WILL ONCE AGAIN FLOW TO BUSINESS AND INDUSTRY.

THE INFLATIONARY EXPECTATIONS THAT LED TO A 21 AND-A-HALF PERCENT PRIME RATE AND SOARING MORTGAGE RATES TWO YEARS AGO ARE NOW REDUCED BY ALMOST HALF. LENDERS HAVE STARTED TO REALIZE THAT DOUBLE-DIGIT INFLATION IS NO LONGER A WAY OF LIFE. SO, INTEREST RATES HAVE TUMBLED, PAVING THE WAY FOR RECOVERY IN VITAL INDUSTRIES LIKE HOUSING AND AUTOS.

THE EARLY EVIDENCE OF THAT RECOVERY HAS STARTED COMING IN. HOUSING STARTS FOR THE FOURTH QUARTER OF 1982 WERE UP 45 PERCENT FROM A YEAR AGO. AND HOUSING PERMITS -- A SURE INDICATOR OF FUTURE GROWTH -- WERE UP A WHOPPING 60 PERCENT.

WE ARE WITNESSING AN UPSURGE OF PRODUCTIVITY AND IMPRESSIVE EVIDENCE THAT AMERICAN INDUSTRY WILL ONCE AGAIN BECOME COMPETITIVE IN MARKETS AT HOME AND ABROAD -- ENSURING MORE JOBS AND BETTER INCOMES FOR THE NATION'S WORKFORCE.

BUT OUR CONFIDENCE MUST ALSO BE TEMPERED BY REALISM AND PATIENCE. QUICK FIXES AND ARTIFICIAL STIMULANTS, REPEATEDLY APPLIED OVER DECADES, ARE WHAT BROUGHT ON THE INFLATIONARY DISORDERS THAT WE HAVE NOW PAID SUCH A HEAVY PRICE TO CURE.

THE PERMANENT RECOVERY IN EMPLOYMENT, PRODUCTION AND INVESTMENT WE SEEK WILL NOT COME IN A SHARP, SHORT SPURT. IT WILL BUILD CAREFULLY AND STEADILY IN THE MONTHS AND YEARS AHEAD.

IN THE MEANTIME, THE CHALLENGE OF GOVERNMENT IS TO IDENTIFY THE THINGS WE CAN DO NOW TO EASE THIS MASSIVE ECONOMIC TRANSITION FOR THE AMERICAN PEOPLE.

THE FOUR-PART BUDGET PLAN FOR ECONOMIC GROWTH

THE FEDERAL BUDGET IS BOTH A SYMPTOM AND A CAUSE OF OUR ECONOMIC PROBLEMS. UNLESS WE REDUCE THE DANGEROUS GROWTH RATE IN GOVERNMENT SPENDING, WE COULD FACE THE PROSPECT OF SLUGGISH ECONOMIC GROWTH INTO THE INDEFINITE FUTURE. FAILURE TO COPE WITH THIS PROBLEM NOW COULD MEAN AS MUCH AS A TRILLION DOLLARS MORE IN NATIONAL DEBT IN THE NEXT FOUR YEARS ALONE. THAT WOULD AVERAGE 4,300 DOLLARS IN ADDITIONAL DEBT FOR EVERY MAN, WOMAN, AND CHILD IN OUR NATION.

TO ASSURE A SUSTAINED RECOVERY, WE MUST CONTINUE GETTING RUNAWAY SPENDING UNDER CONTROL TO BRING THOSE DEFICITS DOWN. IF WE DO NOT, THE RECOVERY WILL BE TOO SHORT, UNEMPLOYMENT WILL REMAIN TOO HIGH, AND WE WILL LEAVE AN UNCONSCIONABLE BURDEN OF NATIONAL DEBT FOR OUR CHILDREN. THAT WE MUST NOT DO.

LET US BE CLEAR ABOUT WHERE THE DEFICIT PROBLEM COMES FROM. CONTRARY TO THE DRUMBEAT WE HAVE BEEN HEARING FOR THE LAST FEW MONTHS, THE DEFICITS WE FACE ARE NOT ROOTED IN DEFENSE SPENDING. TAKEN AS A PERCENTAGE OF THE GROSS NATIONAL PRODUCT, OUR DEFENSE SPENDING HAPPENS TO BE ONLY ABOUT FOUR-FIFTHS OF WHAT IT WAS IN 1970. NOR IS THE DEFICIT, AS SOME WOULD HAVE IT, ROOTED IN TAX CUTS. EVEN WITH OUR TAX CUTS, TAXES AS A FRACTION OF GROSS NATIONAL PRODUCT REMAIN ABOUT THE SAME AS THEY WERE IN 1970.

THE FACT IS, OUR DEFICITS COME FROM THE UNCONTROLLED GROWTH OF THE BUDGET FOR DOMESTIC SPENDING. DURING THE 1970'S, THE SHARE OF OUR NATIONAL INCOME DEVOTED TO THIS DOMESTIC SPENDING INCREASED BY MORE THAN 60 PERCENT -- FROM TEN CENTS OUT OF EVERY DOLLAR PRODUCED BY THE AMERICAN PEOPLE TO 16 CENTS. IN SPITE OF ALL OUR ECONOMIES AND EFFICIENCIES, AND WITHOUT ADDING ANY NEW PROGRAMS, BASIC, NECESSARY DOMESTIC SPENDING PROVIDED FOR IN THIS YEAR'S BUDGET WILL GROW TO ALMOST ONE TRILLION DOLLARS OVER THE NEXT FIVE YEARS.

THE DEFICIT PROBLEM IS A CLEAR AND PRESENT DANGER TO THE BASIC HEALTH OF OUR REPUBLIC. WE NEED A PLAN TO OVERCOME THIS DANGER -- A PLAN BASED ON THESE PRINCIPLES:

IT MUST BE BIPARTISAN. CONQUERING THE DEFICITS AND PUTTING THE GOVERNMENT'S HOUSE IN ORDER WILL REQUIRE THE BEST EFFORTS OF ALL OF US.

IT MUST BE FAIR. JUST AS ALL WILL SHARE IN THE BENEFITS THAT WILL COME FROM RECOVERY, ALL SHOULD SHARE FAIRLY IN THE BURDEN OF TRANSITION.

IT MUST BE PRUDENT. THE STRENGTH OF OUR NATIONAL DEFENSE MUST BE RESTORED SO THAT WE CAN PURSUE PROSPERITY IN PEACE AND FREEDOM WHILE MAINTAINING OUR COMMITMENT TO THE TRULY NEEDY.

FINALLY, IT MUST BE REALISTIC. WE CANNOT RELY ON HOPE ALONE.

WITH THESE GUIDING PRINCIPLES IN MIND, LET ME OUTLINE A FOUR-PART PLAN TO INCREASE ECONOMIC GROWTH AND REDUCE DEFICITS.

FIRST, IN MY BUDGET MESSAGE, I WILL RECOMMEND A FEDERAL SPENDING FREEZE. I KNOW THIS IS STRONG MEDICINE, BUT SO FAR WE HAVE ONLY CUT THE RATE OF INCREASE IN FEDERAL SPENDING. THE GOVERNMENT HAS CONTINUED TO SPEND MORE MONEY EACH YEAR, THOUGH NOT AS MUCH MORE AS IT DID IN THE PAST. TAKEN AS A WHOLE, THE BUDGET I AM PROPOSING FOR THE NEXT FISCAL YEAR WILL INCREASE NO MORE THAN THE RATE OF INFLATION -- IN OTHER WORDS, THE FEDERAL GOVERNMENT WILL HOLD THE LINE ON REAL SPENDING. THAT IS FAR LESS THAN MANY AMERICAN FAMILIES HAVE HAD TO DO IN THESE DIFFICULT TIMES.

I WILL REQUEST THAT THE PROPOSED SIX-MONTH FREEZE IN COST-OF-LIVING ADJUSTMENTS RECOMMENDED BY THE BIPARTISAN SOCIAL SECURITY COMMISSION BE APPLIED TO OTHER GOVERNMENT-RELATED RETIREMENT PROGRAMS. I WILL ALSO PROPOSE A ONE-YEAR FREEZE ON A BROAD RANGE OF DOMESTIC SPENDING PROGRAMS, AND FOR FEDERAL CIVILIAN AND MILITARY PAY AND PENSION PROGRAMS.

NOW LET ME SAY RIGHT HERE, I'M SORRY WITH REGARD TO THE MILITARY IN ASKING THAT OF THEM BECAUSE FOR SO MANY YEARS THEY HAVE BEEN SO FAR BEHIND AND SO LOW IN REWARD FOR WHAT THE MEN AND WOMEN IN UNIFORM ARE DOING BUT I'M SURE THEY WILL UNDERSTAND THAT THIS MUST BE ACROSS THE BOARD AND FAIR.

SECOND, I WILL ASK THE CONGRESS TO ADOPT SPECIFIC MEASURES TO CONTROL THE GROWTH OF THE SO-CALLED "UNCONTROLLABLE" SPENDING PROGRAMS. THESE ARE THE AUTOMATIC SPENDING PROGRAMS, SUCH AS FOOD STAMPS, THAT CANNOT BE SIMPLY FROZEN -- AND THAT HAVE GROWN BY OVER 400 PERCENT SINCE 1970. THEY ARE THE LARGEST, SINGLE CAUSE OF THE BUILT-IN OR "STRUCTURAL" DEFICIT PROBLEM. OUR STANDARD HERE WILL BE FAIRNESS -- INSURING THAT THE TAXPAYERS' HARD-EARNED DOLLARS GO ONLY TO THE TRULY NEEDY; THAT NONE OF THEM ARE TURNED AWAY; BUT THAT FRAUD AND WASTE ARE STAMPED OUT. AND, I AM SORRY TO SAY, THERE IS A LOT OF IT OUT THERE. IN THE FOOD STAMP PROGRAM ALONE, LAST YEAR WE IDENTIFIED ALMOST 1,100 MILLION DOLLARS IN OVERPAYMENTS. THE TAXPAYERS ARE NOT THE ONLY VICTIMS OF THIS KIND OF ABUSE; THE TRULY NEEDY SUFFER AS FUNDS INTENDED FOR THEM ARE TAKEN BY THE GREEDY. FOR EVERYONE'S SAKE, WE MUST PUT AN END TO SUCH WASTE AND CORRUPTION.

THIRD, I WILL ADJUST OUR PROGRAM TO RESTORE AMERICA'S DEFENSES BY PROPOSING 55,000 MILLION DOLLARS IN DEFENSE

SAVINGS OVER THE NEXT FIVE YEARS. THESE ARE SAVINGS RECOMMENDED TO ME BY THE SECRETARY OF DEFENSE, WHO HAS ASSURED ME THEY CAN BE SAFELY ACHIEVED AND WILL NOT DIMINISH OUR ABILITY TO NEGOTIATE ARMS REDUCTIONS OR ENDANGER AMERICA'S SECURITY. WE WILL NOT GAMBLE WITH OUR NATIONAL SURVIVAL.

FOURTH, BECAUSE WE MUST INSURE REDUCTION AND EVENTUAL ELIMINATION OF DEFICITS OVER THE NEXT SEVERAL YEARS, I WILL PROPOSE A STAND-BY TAX LIMITED TO NO MORE THAN ONE PERCENT OF THE GROSS NATIONAL PRODUCT TO START IN FISCAL 1986. IT WOULD LAST NO MORE THAN THREE YEARS AND WOULD START ONLY IF THE CONGRESS HAS FIRST APPROVED OUR SPENDING FREEZE AND BUDGET CONTROL PROGRAM.

AND THERE ARE SEVERAL OTHER CONDITIONS ALSO THAT MUST BE MET, ALL OF THEM, IN ORDER FOR THIS PROGRAM TO BE TRIGGERED.

YOU COULD SAY THAT THIS IS AN INSURANCE POLICY FOR THE FUTURE -- A REMEDY THAT WILL BE AT HAND IF NEEDED, BUT ONLY RESORTED TO IF ABSOLUTELY NECESSARY.

IN THE MEANTIME, WE WILL CONTINUE TO STUDY WAYS TO SIMPLIFY THE TAX CODE AND MAKE IT MORE FAIR FOR ALL AMERICANS. THIS IS A GOAL THAT EVERY AMERICAN WHO HAS EVER STRUGGLED WITH A TAX FORM CAN UNDERSTAND.

AT THE SAME TIME, HOWEVER, I WILL OPPOSE ANY EFFORTS TO UNDO THE BASIC TAX REFORMS WE HAVE ALREADY ENACTED -- INCLUDING THE 10 PERCENT TAX BREAK COMING TO TAXPAYERS THIS JULY AND THE TAX INDEXING WHICH WILL PROTECT ALL AMERICANS FROM INFLATIONARY BRACKET CREEP IN THE YEARS AHEAD.

I REALIZE THAT THIS FOUR-PART PLAN IS EASIER TO DESCRIBE THAN IT WILL BE TO ENACT. BUT THE LOOMING DEFICITS THAT HANG OVER US -- AND OVER AMERICA'S FUTURE -- MUST BE REDUCED. THE PATH I HAVE OUTLINED IS FAIR, BALANCED, AND REALISTIC. IF ENACTED, IT WILL INSURE A STEADY DECLINE IN DEFICITS, AIMING TOWARD A BALANCED BUDGET BY THE END OF THE DECADE. IT IS THE ONLY PATH THAT WILL LEAD TO A STRONG, SUSTAINED RECOVERY.

LET US FOLLOW THAT PATH TOGETHER.

EXPANDING EMPLOYMENT OPPORTUNITIES

NO DOMESTIC CHALLENGE IS MORE CRUCIAL THAN PROVIDING STABLE, PERMANENT JOBS FOR ALL AMERICANS WHO WANT TO WORK. THE RECOVERY WILL PROVIDE JOBS FOR MOST, BUT OTHERS WILL NEED SPECIAL HELP AND TRAINING FOR NEW SKILLS. SHORTLY, I WILL SUBMIT TO THE CONGRESS THE EMPLOYMENT ACT OF 1983 DESIGNED TO GET AT THE SPECIAL PROBLEMS OF THE LONG-TERM UNEMPLOYED AS WELL AS YOUNG PEOPLE TRYING TO ENTER THE JOB MARKET. I WILL PROPOSE EXTENDING UNEMPLOYMENT BENEFITS, INCLUDING SPECIAL INCENTIVES TO EMPLOYERS WHO HIRE THE LONG-TERM UNEMPLOYED, PROVIDING PROGRAMS FOR DISPLACED WORKERS, AND HELPING FEDERALLY-FUNDED AND STATE-ADMINISTERED UNEMPLOYMENT INSURANCE PROGRAMS PROVIDE WORKERS WITH TRAINING AND RELOCATION ASSISTANCE. FINALLY, OUR PROPOSAL WILL INCLUDE NEW INCENTIVES FOR SUMMER YOUTH EMPLOYMENT TO HELP YOUNG PEOPLE GET A START IN THE JOB MARKET.

WE MUST OFFER BOTH SHORT-TERM HELP AND LONG-TERM HOPE FOR OUR UNEMPLOYED. I HOPE WE CAN WORK TOGETHER ON THIS, AS WE DID LAST YEAR IN ENACTING THE LANDMARK JOB TRAINING PARTNERSHIP ACT. REGULATORY REFORM LEGISLATION, A

RESPONSIBLE CLEAN AIR ACT, AND PASSAGE OF ENTERPRISE ZONE LEGISLATION WILL ALSO CREATE NEW INCENTIVES FOR JOBS AND OPPORTUNITY.

A NEW PRIORITY FOR TRADE

ONE OUT OF EVERY FIVE JOBS IN OUR COUNTRY DEPENDS ON TRADE. SO, I WILL PROPOSE A BROADER STRATEGY IN THE FIELD OF INTERNATIONAL TRADE -- ONE THAT INCREASES THE OPENNESS OF OUR TRADING SYSTEM AND IS FAIRER TO AMERICA'S FARMERS AND WORKERS IN THE WORLD MARKETPLACE. WE MUST HAVE ADEQUATE EXPORT FINANCING TO SELL AMERICAN PRODUCTS OVERSEAS. I WILL ASK FOR NEW NEGOTIATING AUTHORITY TO REMOVE BARRIERS AND GET MORE OF OUR PRODUCTS INTO FOREIGN MARKETS. WE MUST STRENGTHEN THE ORGANIZATION OF OUR TRADE AGENCIES AND MAKE CHANGES IN OUR DOMESTIC LAWS AND INTERNATIONAL TRADE POLICY TO PROMOTE FREE TRADE AND THE INCREASED FLOW OF AMERICAN GOODS, SERVICES AND INVESTMENTS.

OUR TRADE POSITION CAN ALSO BE IMPROVED BY MAKING OUR PORT SYSTEM MORE EFFICIENT. BETTER, MORE ACTIVE HARBORS TRANSLATE INTO STABLE JOBS IN OUR COAL FIELDS, RAILROADS, TRUCKING INDUSTRY AND PORTS. AFTER TWO YEARS OF DEBATE, IT IS TIME FOR US TO GET TOGETHER AND ENACT A PORT MODERNIZATION BILL.

EDUCATION, TRAINING, AND RETRAINING ARE FUNDAMENTAL TO OUR SUCCESS AS ARE RESEARCH, DEVELOPMENT, AND PRODUCTIVITY. LABOR, MANAGEMENT, AND GOVERNMENT AT ALL LEVELS CAN AND MUST PARTICIPATE IN IMPROVING THESE TOOLS OF GROWTH. TAX POLICY, REGULATORY PRACTICES, AND GOVERNMENT PROGRAMS ALL NEED CONSTANT RE-EVALUATION IN TERMS OF OUR COMPETITIVENESS. EVERY AMERICAN HAS A ROLE, AND A STAKE, IN INTERNATIONAL TRADE.

WIDENING EDUCATION HORIZONS

WE AMERICANS ARE STILL THE WORLD'S TECHNOLOGICAL LEADER IN MOST FIELDS. WE MUST KEEP THAT EDGE, AND TO DO SO WE NEED TO BEGIN RENEWING THE BASICS -- STARTING WITH OUR EDUCATIONAL SYSTEM. WHILE WE GROW COMPLACENT, OTHERS HAVE ACTED. JAPAN, WITH A POPULATION ONLY ABOUT HALF THE SIZE OF OURS, GRADUATES FROM ITS UNIVERSITIES MORE ENGINEERS THAN WE DO. IF A CHILD DOES NOT RECEIVE ADEQUATE MATH AND SCIENCE TEACHING BY THE AGE OF 16, HE OR SHE HAS LOST THE CHANCE TO BE A SCIENTIST OR ENGINEER.

WE MUST JOIN TOGETHER -- PARENTS, TEACHERS, GRASSROOTS GROUPS, ORGANIZED LABOR, AND THE BUSINESS COMMUNITY -- TO REVITALIZE AMERICAN EDUCATION BY SETTING A STANDARD OF EXCELLENCE.

IN 1983, WE SEEK FOUR MAJOR EDUCATION GOALS:

-- A QUALITY EDUCATION INITIATIVE TO ENCOURAGE A SUBSTANTIAL UPGRADING OF MATH AND SCIENCE INSTRUCTION THROUGH BLOCK GRANTS TO THE STATES.

-- ESTABLISHMENT OF EDUCATION SAVINGS ACCOUNTS THAT WILL GIVE MIDDLE- AND LOWER-INCOME FAMILIES AN INCENTIVE TO SAVE FOR THEIR CHILDREN'S COLLEGE EDUCATION AND, AT THE SAME TIME, ENCOURAGE A REAL INCREASE IN SAVINGS FOR ECONOMIC GROWTH.

-- PASSAGE OF TUITION TAX CREDITS FOR PARENTS WHO WANT TO SEND THEIR CHILDREN TO PRIVATE OR RELIGIOUSLY-AFFILIATED SCHOOLS.

-- A CONSTITUTIONAL AMENDMENT TO PERMIT VOLUNTARY SCHOOL PRAYER; GOD NEVER SHOULD HAVE BEEN EXPELLED FROM AMERICA'S CLASSROOMS.

ASSURING A FAIR SOCIETY

OUR COMMITMENT TO FAIRNESS MEANS THAT WE MUST ASSURE LEGAL AND ECONOMIC EQUITY FOR WOMEN, AND ELIMINATE, ONCE AND FOR ALL, ALL TRACES OF UNJUST DISCRIMINATION AGAINST WOMEN FROM THE U.S. CODE. WE WILL NOT TOLERATE WAGE DISCRIMINATION BASED ON SEX AND WE INTEND TO STRENGTHEN ENFORCEMENT OF CHILD SUPPORT LAWS TO ENSURE THAT SINGLE PARENTS, MOST OF WHOM ARE WOMEN, DO NOT SUFFER UNFAIR FINANCIAL HARDSHIP. WE WILL ALSO TAKE ACTION TO REMEDY INEQUITIES IN PENSIONS. THESE INITIATIVES WILL BE JOINED BY OTHERS TO CONTINUE OUR EFFORTS TO PROMOTE EQUITY FOR WOMEN.

ALSO IN THE AREA OF FAIRNESS AND EQUITY, WE WILL ASK FOR EXTENSION OF THE CIVIL RIGHTS COMMISSION WHICH IS DUE TO EXPIRE THIS YEAR. THE COMMISSION IS AN IMPORTANT PART OF THE ONGOING STRUGGLE FOR JUSTICE IN AMERICA, AND WE STRONGLY SUPPORT ITS REAUTHORIZATION. EFFECTIVE ENFORCEMENT OF OUR NATION'S FAIR HOUSING LAWS IS ALSO ESSENTIAL TO ENSURING EQUAL OPPORTUNITY. IN THE YEAR AHEAD, WE WILL WORK TO STRENGTHEN ENFORCEMENT OF FAIR HOUSING LAWS FOR ALL AMERICANS.

PROTECTING OUR PEOPLE AGAINST CRIME

THE TIME HAS ALSO COME FOR MAJOR REFORM OF OUR CRIMINAL JUSTICE STATUTES AND ACCELERATION OF THE DRIVE AGAINST ORGANIZED CRIME AND DRUG TRAFFICKING. IT IS HIGH TIME WE MAKE OUR CITIES SAFE AGAIN. THIS ADMINISTRATION HEREBY DECLARES ALL-OUT WAR ON BIG-TIME ORGANIZED CRIME AND THE DRUG RACKETEERS WHO ARE POISONING OUR YOUNG PEOPLE. WE WILL ALSO IMPLEMENT RECOMMENDATIONS OF OUR TASK FORCE ON VICTIMS OF CRIME, WHICH WILL REPORT TO ME THIS WEEK.

ASSISTING AMERICA'S FARMERS

AMERICAN AGRICULTURE, THE ENVY OF THE WORLD, HAS BECOME THE VICTIM OF ITS OWN SUCCESSES. WITH ONE FARMER NOW PRODUCING ENOUGH FOOD TO FEED HIMSELF AND 77 OTHER PEOPLE, AMERICA IS CONFRONTED WITH RECORD SURPLUS CROPS AND COMMODITY PRICES BELOW THE COST OF PRODUCTION. WE MUST STRIVE, THROUGH INNOVATIONS LIKE THE PAYMENT-IN-KIND "CROP-SWAP" APPROACH, AND AN AGGRESSIVE EXPORT POLICY, TO RESTORE HEALTH AND VITALITY TO RURAL AMERICA. MEANWHILE, I HAVE INSTRUCTED THE DEPARTMENT OF AGRICULTURE TO WORK INDIVIDUALLY WITH FARMERS WITH DEBT PROBLEMS TO HELP THEM THROUGH THESE ROUGH TIMES.

MOBILIZING THE PRIVATE SECTOR

OVER THE PAST YEAR, OUR TASK FORCE ON PRIVATE SECTOR INITIATIVES HAS SUCCESSFULLY FORGED A WORKING PARTNERSHIP INVOLVING LEADERS OF BUSINESS, LABOR, EDUCATION AND GOVERNMENT TO ADDRESS THE TRAINING NEEDS OF AMERICAN WORKERS. THANKS TO THE TASK FORCE, PRIVATE SECTOR INITIATIVES ARE NOW UNDERWAY IN ALL 50 STATES OF THE UNION AND THOUSANDS OF WORKING PEOPLE HAVE BEEN HELPED IN MAKING THE SHIFT FROM DEAD-END JOBS AND LOW-DEMAND SKILLS TO THE GROWTH AREAS OF HIGH TECHNOLOGY AND THE SERVICE ECONOMY.

ADDITIONALLY, A MAJOR EFFORT WILL BE FOCUSED ON ENCOURAGING THE EXPANSION OF PRIVATE COMMUNITY CHILD CARE. THE NEW ADVISORY COUNCIL ON PRIVATE SECTOR INITIATIVES WILL CARRY ON AND EXTEND THIS VITAL WORK OF ENCOURAGING PRIVATE INITIATIVE IN 1983.

MAKING HEALTH CARE MORE AFFORDABLE

IN THE COMING YEAR WE WILL ALSO ACT TO IMPROVE THE QUALITY OF LIFE FOR AMERICANS BY CURBING THE SKYROCKETING COST OF HEALTH CARE THAT IS BECOMING AN UNBEARABLE FINANCIAL BURDEN FOR SO MANY. AND WE WILL SUBMIT LEGISLATION TO PROVIDE CATASTROPHIC ILLNESS INSURANCE COVERAGE FOR OLDER AMERICANS.

ENHANCING FEDERALISM

I WILL ALSO SHORTLY SUBMIT A COMPREHENSIVE FEDERALISM PROPOSAL THAT WILL CONTINUE OUR EFFORTS TO RESTORE TO STATES AND LOCAL GOVERNMENTS THEIR ROLES AS DYNAMIC LABORATORIES OF CHANGE IN A CREATIVE DEMOCRACY.

DURING THE NEXT SEVERAL WEEKS, I WILL SEND TO THE CONGRESS A SERIES OF DETAILED PROPOSALS ON THESE AND OTHER TOPICS AND LOOK FORWARD TO WORKING WITH YOU ON THE DEVELOPMENT OF THESE INITIATIVES.

KEEPING FAITH WITH THE FUTURE

SO FAR, I HAVE CONCENTRATED MAINLY ON THE PROBLEMS POSED BY THE FUTURE. BUT IN ALMOST EVERY HOME AND WORKPLACE IN AMERICA, WE ARE ALREADY WITNESSING REASON FOR GREAT HOPE -- THE FIRST FLOWERING OF THE MAN-MADE MIRACLES OF HIGH TECHNOLOGY, A FIELD PIONEERED AND STILL LED BY OUR COUNTRY.

TO MANY OF US NOW, COMPUTERS, SILICON CHIPS, DATA PROCESSING, CYBERNETICS AND ALL THE OTHER INNOVATIONS OF THE DAWNING HIGH TECHNOLOGY AGE ARE AS MYSTIFYING AS THE WORKINGS OF THE COMBUSTION ENGINE MUST HAVE BEEN WHEN THAT FIRST MODEL-T RATTLED DOWN MAIN STREET U.S.A.

BUT, AS SURELY AS AMERICA'S PIONEER SPIRIT MADE US THE INDUSTRIAL GIANT OF THE 20TH CENTURY, THE SAME PIONEER SPIRIT TODAY IS OPENING UP ANOTHER VAST FRONTIER OF OPPORTUNITY -- THE FRONTIER OF HIGH TECHNOLOGY. IN CONQUERING THIS FRONTIER WE CANNOT WRITE OFF OUR TRADITIONAL INDUSTRIES, BUT WE MUST DEVELOP THE SKILLS AND INDUSTRIES THAT WILL MAKE US A PIONEER OF TOMORROW. THIS ADMINISTRATION IS COMMITTED TO KEEPING AMERICA THE TECHNOLOGICAL LEADER OF THE WORLD NOW AND INTO THE 21ST CENTURY.

AMERICA AND THE WORLD

LET US TURN BRIEFLY TO THE INTERNATIONAL ARENA. AMERICA'S LEADERSHIP ROLE IN THE WORLD CAME TO US BECAUSE OF OUR OWN STRENGTH AND BECAUSE OF THE VALUES WHICH GUIDE US AS A SOCIETY: FREE ELECTIONS, A FREE PRESS, FREEDOM OF RELIGIOUS CHOICE, FREE TRADE UNIONS, AND, ABOVE ALL, FREEDOM FOR THE INDIVIDUAL AND REJECTION OF THE ARBITRARY POWER OF THE STATE. THESE VALUES ARE THE BEDROCK OF OUR STRENGTH. THEY UNITE US IN A STEWARDSHIP OF PEACE AND FREEDOM WITH OUR ALLIES AND FRIENDS IN NATO, IN ASIA, IN LATIN AMERICA AND ELSEWHERE. THEY ARE ALSO THE VALUES WHICH IN THE RECENT

PAST SOME AMONG US HAD BEGUN TO DOUBT AND VIEW WITH A CYNICAL EYE.

FORTUNATELY, WE AND OUR ALLIES HAVE REDISCOVERED THE STRENGTH OF OUR COMMON DEMOCRATIC VALUES. AND WE ARE APPLYING THEM AS THE CORNERSTONE OF A COMPREHENSIVE STRATEGY FOR PEACE WITH FREEDOM. IN LONDON LAST YEAR, I ANNOUNCED THE COMMITMENT OF THE UNITED STATES TO DEVELOPING THE INFRASTRUCTURE OF DEMOCRACY THROUGHOUT THE WORLD. WE INTEND TO PURSUE THIS DEMOCRATIC INITIATIVE VIGOROUSLY. THE FUTURE BELONGS NOT TO GOVERNMENTS AND IDEOLOGIES WHICH OPPRESS THEIR PEOPLES BUT TO DEMOCRATIC SYSTEMS OF SELF-GOVERNMENT WHICH ENCOURAGE INDIVIDUAL INITIATIVE AND GUARANTEE PERSONAL FREEDOM.

STRENGTHENING THE WORLD ECONOMY

BUT OUR STRATEGY FOR PEACE WITH FREEDOM MUST ALSO BE BASED ON STRENGTH -- ECONOMIC STRENGTH AND MILITARY STRENGTH. A STRONG AMERICAN ECONOMY IS ESSENTIAL TO THE WELL-BEING AND SECURITY OF OUR FRIENDS AND ALLIES. THE RESTORATION OF A STRONG, HEALTHY AMERICAN ECONOMY HAS BEEN AND REMAINS ONE OF THE CENTRAL PILLARS OF OUR FOREIGN POLICY. THE PROGRESS I HAVE BEEN ABLE TO REPORT TO YOU TONIGHT WILL, I KNOW, BE AS WARMLY WELCOMED BY THE REST OF THE FREE WORLD AS IT IS BY THE AMERICAN PEOPLE.

WE MUST ALSO RECOGNIZE THAT OUR OWN ECONOMIC WELL-BEING IS INEXTRICABLY LINKED TO THE WORLD ECONOMY. WE EXPORT OVER 20 PERCENT OF OUR INDUSTRIAL PRODUCTION, AND 40 PERCENT OF OUR FARMLAND PRODUCES FOR EXPORT. WE WILL CONTINUE TO WORK CLOSELY WITH THE INDUSTRIALIZED DEMOCRACIES OF EUROPE AND JAPAN AND WITH THE INTERNATIONAL MONETARY FUND TO ENSURE IT HAS ADEQUATE RESOURCES TO HELP BRING THE WORLD ECONOMY BACK TO STRONG, NON-INFLATIONARY GROWTH. AS THE LEADER OF THE WEST AND AS A COUNTRY THAT HAS BECOME GREAT AND RICH BECAUSE OF ECONOMIC FREEDOM, AMERICA MUST BE AN UNRELENTING ADVOCATE OF FREE TRADE. AS SOME NATIONS ARE TEMPTED TO TURN TO PROTECTIONISM, OUR STRATEGY CANNOT BE TO FOLLOW THEM BUT TO LEAD THE WAY TOWARD FREER TRADE. TO THIS END, IN MAY OF THIS YEAR, AMERICA WILL HOST AN ECONOMIC SUMMIT MEETING IN WILLIAMSBURG, VIRGINIA.

RESTORING AMERICA'S DEFENSES

AS WE BEGIN OUR THIRD YEAR, WE HAVE PUT IN PLACE A DEFENSE PROGRAM THAT REDEEMS THE NEGLECT OF THE PAST DECADE. WE HAVE DEVELOPED A REALISTIC MILITARY STRATEGY TO DETER THREATS TO THE PEACE, AND TO PROTECT OUR FREEDOM IF DETERRENCE FAILS. OUR ARMED FORCES ARE FINALLY PROPERLY PAID, AFTER YEARS OF NEGLECT, ARE WELL-TRAINED, AND BECOMING BETTER EQUIPPED AND SUPPLIED -- AND THE AMERICAN UNIFORM IS ONCE MORE WORN WITH PRIDE. MOST OF THE MAJOR SYSTEMS NEEDED FOR MODERNIZING OUR DEFENSES ARE ALREADY UNDERWAY AND WE WILL BE ADDRESSING ONE KEY SYSTEM -- THE MX MISSILE -- IN CONSULTATION WITH THE CONGRESS IN A FEW MONTHS.

A BIPARTISAN POLICY FOR PEACE

AMERICA'S FOREIGN POLICY IS ONCE AGAIN BASED ON BIPARTISANSHIP -- ON REALISM, STRENGTH, FULL PARTNERSHIP AND CONSULTATION WITH OUR ALLIES, AND CONSTRUCTIVE NEGOTIATION WITH POTENTIAL ADVERSARIES. FROM THE MIDDLE EAST TO

SOUTHERN AFRICA TO GENEVA, AMERICAN DIPLOMATS ARE TAKING THE INITIATIVE TO MAKE PEACE AND LOWER ARMS LEVELS. WE SHOULD BE PROUD OF OUR ROLE AS PEACEMAKERS.

IN THE MIDDLE EAST LAST YEAR, THE UNITED STATES PLAYED THE MAJOR ROLE IN ENDING THE TRAGIC FIGHTING IN LEBANON, AND NEGOTIATED THE WITHDRAWAL OF THE PLO FROM BEIRUT.

LAST SEPTEMBER, I OUTLINED PRINCIPLES TO CARRY ON THE PEACE PROCESS BEGUN SO PROMISINGLY AT CAMP DAVID. ALL THE PEOPLE OF THE MIDDLE EAST SHOULD KNOW THAT, IN THE YEAR AHEAD, WE WILL NOT FLAG IN OUR EFFORTS TO BUILD ON THAT FOUNDATION TO BRING THEM THE BLESSINGS OF PEACE.

IN CENTRAL AMERICA AND THE CARIBBEAN BASIN, WE ARE LIKewise ENGAGED IN A PARTNERSHIP FOR PEACE, PROSPERITY AND DEMOCRACY. FINAL PASSAGE OF THE REMAINING PORTIONS OF OUR CARIBBEAN BASIN INITIATIVE, WHICH PASSED THE HOUSE LAST YEAR, IS ONE OF THIS ADMINISTRATION'S TOP LEGISLATIVE PRIORITIES FOR 1983.

THE SECURITY AND ECONOMIC ASSISTANCE POLICIES OF THIS ADMINISTRATION, IN LATIN AMERICA AND ELSEWHERE, ARE BASED ON REALISM AND REPRESENT A CRITICAL INVESTMENT IN THE FUTURE OF THE HUMAN RACE. THIS UNDERTAKING IS A JOINT RESPONSIBILITY OF THE EXECUTIVE AND LEGISLATIVE BRANCHES, AND I AM COUNTING ON THE COOPERATION AND STATESMANSHIP OF THE CONGRESS TO HELP US MEET THIS ESSENTIAL FOREIGN POLICY GOAL.

U.S.-SOVIET RELATIONS AND ARMS REDUCTION

AT THE HEART OF OUR STRATEGY FOR PEACE IS OUR RELATIONSHIP WITH THE SOVIET UNION.

THE PAST YEAR SAW A CHANGE IN SOVIET LEADERSHIP. WE ARE PREPARED FOR A POSITIVE CHANGE IN SOVIET-AMERICAN RELATIONS. BUT THE SOVIET UNION MUST SHOW, BY DEEDS AS WELL AS WORDS, A SINCERE COMMITMENT TO RESPECT THE RIGHTS AND SOVEREIGNTY OF THE FAMILY OF NATIONS. RESPONSIBLE MEMBERS OF THE WORLD COMMUNITY DO NOT THREATEN OR INVADE THEIR NEIGHBORS AND THEY RESTRAIN THEIR ALLIES FROM AGGRESSION.

FOR OUR PART, WE ARE VIGOROUSLY PURSUING ARMS REDUCTIONS NEGOTIATIONS WITH THE SOVIET UNION. SUPPORTED BY OUR ALLIES, WE HAVE NOW PUT FORWARD DRAFT AGREEMENTS PROPOSING SIGNIFICANT WEAPONS REDUCTIONS TO EQUAL AND VERIFIABLE LOWER LEVELS. WE INSIST ON AN EQUAL BALANCE OF FORCES. AND, GIVEN THE OVERWHELMING EVIDENCE OF SOVIET VIOLATIONS OF INTERNATIONAL TREATIES CONCERNING CHEMICAL AND BIOLOGICAL WEAPONS, WE ALSO INSIST THAT ANY AGREEMENT WE SIGN CAN AND WILL BE VERIFIABLE.

IN THE CASE OF INTERMEDIATE-RANGE NUCLEAR FORCES, WE HAVE PROPOSED THE COMPLETE ELIMINATION OF THE ENTIRE CLASS OF LAND-BASED MISSILES. WE ARE ALSO PREPARED TO CAREFULLY EXPLORE SERIOUS SOVIET PROPOSALS. AT THE SAME TIME, LET ME EMPHASIZE THAT ALLIED STEADFASTNESS REMAINS A KEY TO ACHIEVING ARMS REDUCTIONS.

WITH FIRMNESS AND DEDICATION, WE WILL CONTINUE TO NEGOTIATE. DEEP DOWN, THE SOVIETS MUST KNOW IT IS IN THEIR INTEREST AS WELL AS OURS TO PREVENT A WASTEFUL ARMS RACE. AND ONCE THEY RECOGNIZE OUR UNSHAKEABLE RESOLVE TO MAINTAIN ADEQUATE DETERRENCE, THEY WILL HAVE EVERY REASON TO JOIN US IN THE SEARCH FOR GREATER SECURITY AND MAJOR ARMS REDUCTIONS. WHEN THAT MOMENT COMES -- AND I AM CONFIDENT THAT IT WILL -- WE WILL HAVE TAKEN AN IMPORTANT STEP TOWARD A MORE PEACEFUL FUTURE FOR ALL THE WORLD'S PEOPLE.

A VISION OF HOPE

A VERY WISE MAN, BERNARD BARUCH, ONCE SAID THAT AMERICA HAS NEVER FORGOTTEN THE NOBLER THINGS THAT BROUGHT HER INTO BEING AND THAT LIGHT HER PATH. OUR COUNTRY IS A SPECIAL PLACE BECAUSE WE AMERICANS HAVE ALWAYS BEEN SUSTAINED, THROUGH GOOD TIMES AND BAD, BY A NOBLE VISION -- A VISION NOT ONLY OF WHAT THE WORLD AROUND US IS TODAY, BUT OF WHAT WE, AS A FREE PEOPLE, CAN MAKE IT BE TOMORROW.

WE ARE REALISTS; WE SOLVE OUR PROBLEMS INSTEAD OF IGNORING THEM; NO MATTER HOW LOUD THE CHORUS OF DESPAIR AROUND US.

BUT WE ARE ALSO IDEALISTS, FOR IT WAS AN IDEAL THAT BROUGHT OUR ANCESTORS TO THESE SHORES FROM EVERY CORNER OF THE WORLD.

RIGHT NOW WE NEED BOTH REALISM AND IDEALISM. MILLIONS OF OUR NEIGHBORS ARE WITHOUT WORK. IT IS UP TO US TO SEE THEY ARE NOT WITHOUT HOPE. THIS IS A TASK FOR ALL OF US. AND MAY I SAY AMERICANS HAVE RALLIED TO THIS CAUSE PROVING ONCE AGAIN THAT WE ARE THE MOST GENEROUS PEOPLE ON EARTH.

WE WHO ARE IN GOVERNMENT MUST TAKE THE LEAD IN RESTORING THE ECONOMY. THE SINGLE THING THAT CAN START THE WHEELS OF INDUSTRY TURNING AGAIN IS FURTHER REDUCTION OF INTEREST RATES. ANOTHER ONE OR TWO POINTS CAN MEAN TENS OF THOUSANDS OF JOBS. RIGHT NOW, WITH INFLATION AS LOW AS IT IS, 3.9 PERCENT, THERE IS ROOM FOR INTEREST RATES TO COME DOWN.

ONLY FEAR PREVENTS THEIR REDUCTION. A LENDER, AS WE KNOW, MUST CHARGE AN INTEREST RATE THAT RECOVERS THE DEPRECIATED VALUE OF THE DOLLARS LOANED. THAT DEPRECIATION IS, OF COURSE, THE AMOUNT OF INFLATION. TODAY, INTEREST RATES ARE BASED ON FEAR THAT GOVERNMENT WILL RESORT TO MEASURES, AS IT HAS IN THE PAST, THAT WILL SEND INFLATION ZOOMING AGAIN.

WE WHO SERVE HERE IN THIS CAPITAL MUST ERASE THAT FEAR BY MAKING IT ABSOLUTELY CLEAR THAT WE WILL NOT STOP FIGHTING INFLATION; THAT, TOGETHER, WE WILL DO ONLY THOSE THINGS THAT WILL LEAD TO LASTING ECONOMIC GROWTH.

YES, THE PROBLEMS CONFRONTING US ARE LARGE AND FORBIDDING. AND, CERTAINLY, NO ONE CAN OR SHOULD MINIMIZE THE PLIGHT OF MILLIONS OF OUR FRIENDS AND NEIGHBORS WHO ARE LIVING IN THE BLEAK EMPTINESS OF UNEMPLOYMENT. BUT WE MUST AND CAN GIVE THEM GOOD REASON TO BE HOPEFUL.

BACK OVER THE YEARS, CITIZENS LIKE OURSELVES HAVE GATHERED WITHIN THESE WALLS WHEN OUR NATION WAS THREATENED; SOMETIMES WHEN ITS VERY EXISTENCE WAS AT STAKE. ALWAYS, WITH COURAGE AND COMMON SENSE, THEY MET THE CRISES OF THEIR TIME AND LIVED TO SEE A STRONGER, BETTER, AND MORE PROSPEROUS COUNTRY.

THE PRESENT SITUATION IS NO WORSE AND IN FACT IS NOT AS BAD AS SOME OF THOSE THEY FACED. TIME AND AGAIN, THEY PROVED THAT THERE IS NOTHING WE AMERICANS CANNOT ACHIEVE AS FREE MEN AND WOMEN.

YES, WE STILL HAVE PROBLEMS -- PLENTY OF THEM. BUT IT IS JUST PLAIN WRONG -- UNJUST TO OUR COUNTRY AND UNJUST TO OUR PEOPLE -- TO LET THOSE PROBLEMS STAND IN THE WAY OF THE MOST IMPORTANT TRUTH OF ALL: AMERICA IS ON THE MEND.

WE OWE IT TO THE UNFORTUNATE TO BE AWARE OF THEIR PLIGHT AND TO HELP THEM IN EVERY WAY WE CAN. NO ONE CAN QUARREL WITH THAT -- WE MUST AND DO HAVE COMPASSION FOR ALL

THE VICTIMS OF THIS ECONOMIC CRISIS. BUT THE BIG STORY ABOUT AMERICA TODAY IS THE WAY THAT MILLIONS OF CONFIDENT, CARING PEOPLE -- THOSE EXTRAORDINARY "ORDINARY" AMERICANS WHO NEVER MAKE THE HEADLINES AND WILL NEVER BE INTERVIEWED -- ARE LAYING THE FOUNDATION, NOT JUST FOR RECOVERY FROM OUR PRESENT PROBLEMS, BUT FOR A BETTER TOMORROW FOR ALL OUR PEOPLE.

FROM COAST TO COAST, ON THE JOB AND IN CLASSROOMS AND LABORATORIES, AT NEW CONSTRUCTION SITES AND IN CHURCHES AND COMMUNITY GROUPS, NEIGHBORS ARE HELPING NEIGHBORS. AND THEY'VE ALREADY BEGUN THE BUILDING, THE RESEARCH, THE WORK, AND THE GIVING THAT WILL MAKE OUR COUNTRY GREAT AGAIN.

I BELIEVE THIS BECAUSE I BELIEVE IN THEM -- IN THE STRENGTH OF THEIR HEARTS AND MINDS, IN THE COMMITMENT EACH OF THEM BRINGS TO THEIR DAILY LIVES, BE THEY HIGH OR HUMBLE. THE CHALLENGE FOR US IN GOVERNMENT IS TO BE WORTHY OF THEM -- TO MAKE GOVERNMENT A HELP, NOT A HINDRANCE TO OUR PEOPLE IN THE CHALLENGING BUT PROMISING DAYS AHEAD.

IF WE DO THAT, IF WE CARE WHAT OUR CHILDREN AND OUR CHILDREN'S CHILDREN WILL SAY OF US, IF WE WANT THEM ONE DAY TO BE THANKFUL FOR WHAT WE DID HERE IN THESE TEMPLES OF FREEDOM, WE WILL WORK TOGETHER TO MAKE AMERICA BETTER FOR OUR HAVING BEEN HERE -- NOT JUST IN THIS YEAR, OR IN THIS DECADE, BUT IN THE NEXT CENTURY AND BEYOND.

END TEXT

EXCERPTS:

STATE OF THE UNION FACT SHEET

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A "FACT SHEET" ISSUED BY THE WHITE HOUSE IN ADVANCE OF PRESIDENT REAGAN'S STATE OF THE UNION ADDRESS TO CONGRESS JANUARY 25 GAVE ADDITIONAL DETAILS ON SEVERAL OF THE PRESIDENT'S PROPOSALS.

FOLLOWING ARE EXCERPTS FROM THE FACT SHEET DEALING WITH THE CONTINGENCY TAX PROPOSAL, JOBS AND UNEMPLOYMENT PROGRAMS, AND TRADE POLICY:

SUMMARY

IN HIS SECOND STATE OF THE UNION ADDRESS, PRESIDENT REAGAN PRESENTED A SWEEPING SET OF INITIATIVES TO BRING LONG-TERM ECONOMIC GROWTH AND PUT AMERICANS BACK TO WORK. AMONG THE KEY ELEMENTS WERE A FOUR-PART BUDGET PLAN, A PROGRAM TO ATTACK STRUCTURAL UNEMPLOYMENT, AND A BROADENED TRADE STRATEGY. IN ADDITION, THE PRESIDENT OUTLINED A SERIES OF OTHER STEPS THAT HE PROPOSES IN THE AREAS OF EDUCATION, HEALTH CARE, CRIME, WOMEN'S RIGHTS, AND CIVIL RIGHTS. FINALLY, THE PRESIDENT REAFFIRMED THE NATION'S COMMITMENT TO PEACE, ARMS CONTROL AND NATIONAL SECURITY. THROUGHOUT THE ADDRESS, THE PRESIDENT EMPHASIZED THE NEED FOR BIPARTISANSHIP IN ADDRESSING THE NATION'S CHALLENGES....

INSURANCE POLICY AGAINST HIGH DEFICITS IN OUTYEARS
FINALLY, IN ORDER TO PROTECT THE COUNTRY AGAINST HIGH DEFICITS IN THE OUTYEARS, THE PRESIDENT SAID HE WOULD PROPOSE A STANDBY TAX PROGRAM. THE STANDBY MEASURE WOULD BE LIMITED IN SIZE (1 PERCENT OF GNP (GROSS NATIONAL PRODUCT) AND IN DURATION (TO LAST NO MORE THAN THREE YEARS, BEGINNING ON OCTOBER 1, 1985). FURTHERMORE, THE NEW PROGRAM WOULD BE TRIGGERED ONLY IF (1) THE CONGRESS PREVIOUSLY AGREED TO OTHER SPENDING RESTRAINTS, INCLUDING THE BUDGET FREEZE; (2) THE FY (FISCAL YEAR) 1986 FEDERAL DEFICIT FORECAST BY THE ADMINISTRATION ON JULY 1, 1985 EXCEEDS 2.5 PERCENT OF GNP; AND (3) THE NATION, ON THAT SAME DATE, HAS A GROWING ECONOMY. ALL THREE CONDITIONS MUST BE MET BEFORE THE PROGRAM BECOMES EFFECTIVE.

THE CONTINGENCY TAXES WOULD CONSIST OF:

- A SURCHARGE ON INDIVIDUALS AND CORPORATIONS APPROXIMATELY EQUIVALENT TO ONE PERCENT OF TAXABLE INCOME; AND,
- AN EXCISE TAX ON OIL, BOTH DOMESTICALLY PRODUCED AND IMPORTED, THAT WILL RAISE REVENUES OF ABOUT FIVE DOLLARS PER BARREL.

AS THE PRESIDENT SAID, THIS IS AN INSURANCE PROGRAM TO PROTECT AGAINST HIGH DEFICITS IN FUTURE YEARS....

THE PRESIDENT ALSO MADE IT CLEAR IN HIS ADDRESS THAT HE IS ACTIVELY INTERESTED IN WAYS TO SIMPLIFY THE FEDERAL TAX SYSTEM. HE IS DIRECTING THE SECRETARY OF THE TREASURY TO UNDERTAKE STUDIES TO DETERMINE HOW THAT MIGHT BE DONE.

ADDRESSING STRUCTURAL UNEMPLOYMENT

THE PRESIDENT ANNOUNCED THAT HE WOULD SHORTLY SEND TO THE CONGRESS A COMPREHENSIVE EMPLOYMENT BILL TO ATTACK THE SPECIAL PROBLEMS OF THE LONG-TERM UNEMPLOYED AND OF YOUNG PEOPLE.

-- OF THE ROUGHLY 111 MILLION AMERICANS IN THE LABOR FORCE, OVER 12 MILLION WERE UNEMPLOYED AT THE END OF 1982.

-- DURING 1983, IT IS LIKELY THAT SOMEWHAT OVER 3 MILLION PEOPLE WILL EXHAUST ALL UNEMPLOYMENT COMPENSATION BENEFITS.

-- HEADS OF HOUSEHOLDS ACCOUNT FOR LESS THAN 42 PERCENT OF THE UNEMPLOYED. PERSONS 16 TO 24 YEARS OLD ACCOUNT FOR APPROXIMATELY 40 PERCENT AND TEENAGERS MAKE UP NEARLY 18 PERCENT OF THE UNEMPLOYED.

-- DURING NON-RECESSION TIMES, PERSONS WHO QUIT THEIR JOBS, NEW LABOR MARKET ENTRANTS, AND RETIREES ACCOUNT FOR MORE OF THE UNEMPLOYED THAN THOSE WHO LOSE THEIR JOBS. UNEMPLOYMENT FOR MOST WORKERS IS OF RELATIVELY SHORT DURATION -- ABOUT 10 WEEKS. HOWEVER, A SMALL BUT GROWING FRACTION OF THE LABOR FORCE IS EXPERIENCING LONGER DURATIONS OF UNEMPLOYMENT. IT IS ESTIMATED THAT ONE-FOURTH OF THOSE UNEMPLOYED WILL EXPERIENCE UNEMPLOYMENT FOR LONGER THAN SIX MONTHS IN 1983.

-- THIS CONDITION IS DUE IN PART TO THE LENGTH AND DEPTH OF THE RECESSION, BUT MORE IMPORTANTLY TO STRUCTURAL FACTORS. THESE FACTORS INCLUDE BARRIERS TO LABOR MARKET ENTRY, THE MISMATCH IN THE SKILLS REQUIRED IN AVAILABLE JOBS VERSUS THOSE AVAILABLE TO FILL THEM, AND FUNDAMENTAL STRUCTURAL CHANGES IN THE U.S. ECONOMY.

-- IN 1982 THE ADMINISTRATION PROPOSED, AND THE CONGRESS ENACTED, A MAJOR NEW PIECE OF LEGISLATION TO PROVIDE TRAINING FOR THOSE MOST IN NEED OF ACQUIRING SKILLS TO FIND PRODUCTIVE EMPLOYMENT. THE MULTI-BILLION (THOUSAND MILLION) DOLLAR JOB TRAINING PARTNERSHIP ACT BRINGS THE PUBLIC AND PRIVATE SECTORS TOGETHER IN PROVIDING TRAINING FOR OVER ONE MILLION AMERICANS ANNUALLY.

-- YOUTH UNEMPLOYMENT POSES A SPECIAL PROBLEM. EXPERIENCE SUGGESTS THAT YOUTHS WHO HAVE DIFFICULTY IN THE FIRST YEAR OR TWO IN SECURING EMPLOYMENT RUN A HIGHER RISK OF LONG-TERM UNEMPLOYMENT. IT IS IMPORTANT FOR NEW WORKERS TO BE ABLE TO RECEIVE ON-THE-JOB TRAINING WHICH PROVIDES THE SKILLS TO ENABLE THEM TO SECURE A LASTING ATTACHMENT TO THE LABOR FORCE.

TO ATTACK THE SPECIAL PROBLEMS OF THE LONG-TERM UNEMPLOYED AND YOUNG PEOPLE THE PRESIDENT'S EMPLOYMENT BILL WILL PROPOSE:

-- EXTENDING FOR SIX MONTHS THE FEDERAL SUPPLEMENTAL COMPENSATION PROGRAM FOR THOSE WHO HAVE EXHAUSTED THEIR REGULAR AND EXTENDED UNEMPLOYMENT INSURANCE BENEFITS. (THE FEDERAL SUPPLEMENTAL COMPENSATION PROGRAM IS CURRENTLY SCHEDULED TO EXPIRE ON MARCH 31, 1983).

-- PROVIDING SPECIAL INCENTIVES IN THE FORM OF TAX CREDITS TO EMPLOYERS WHO HIRE THE LONG-TERM UNEMPLOYED;

-- PROVIDING ADDITIONAL FUNDS FOR PROGRAMS BENEFITTING DISPLACED WORKERS UNDER TITLE III OF THE JOBS TRAINING PARTNERSHIP ACT.

-- PERMIT STATES TO USE A PORTION OF THEIR UNEMPLOYMENT INSURANCE TRUST FUNDS TO PROVIDE RETRAINING AND RELOCATION ASSISTANCE.

-- IMPROVING THE INCENTIVES FOR HIRING YOUTHS DURING THE SUMMER.

-- IN 1982, PRESIDENT REAGAN PROPOSED ENTERPRISE ZONES LEGISLATION TO CREATE JOBS FOR THE DISADVANTAGED AND REVITALIZE URBAN AND RURAL AREAS THAT WAS FAVORABLY REPORTED BY THE SENATE FINANCE COMMITTEE, BUT NOT ACTED ON FURTHER BY THE CONGRESS. THE PRESIDENT WILL PROPOSE LEGISLATION BASED ON THE BILL REPORTED OUT BY THE SENATE FINANCE COMMITTEE IN THE LAST CONGRESS.

THESE AND OTHER PROPOSALS TO REDUCE STRUCTURAL UNEMPLOYMENT WILL BE OUTLINED IN DETAIL WHEN THE PRESIDENT'S PROPOSED EMPLOYMENT ACT OF 1983 IS SUBMITTED.

A FAIR SHAKE FOR AMERICA'S FARMERS AND WORKERS IN THE WORLD MARKET PLACE

THE PRESIDENT ANNOUNCED THAT HE WILL PROPOSE A BROADER TRADE STRATEGY TO PROMOTE FREE TRADE AND THE INCREASED FLOW OF AMERICAN GOODS AND SERVICES GIVING A FAIR SHAKE TO AMERICA'S FARMERS AND WORKERS.

-- ADMINISTRATION NEGOTIATING SUCCESSES IN SETTING MINIMUM RATES FOR GOVERNMENT EXPORT CREDITS, COUPLED WITH THE DECLINE IN U.S. INTEREST RATES, HAVE REDUCED THE ASYMMETRY IN FINANCING COSTS.

-- TO MEET INCREASED DEMAND FOR CREDIT, PARTICULARLY FROM THE DEVELOPING COUNTRIES, EX-IM BANK'S GUARANTEE AUTHORITY WILL BE INCREASED.

-- THE ADMINISTRATION WILL ALSO SEEK AN INCREASE IN DIRECT LENDING AUTHORITY, IF THE PRESIDENT DETERMINES THAT IT IS NEEDED TO COUNTER INAPPROPRIATE FOREIGN GOVERNMENT EXPORT FINANCING PRACTICES.

-- EXISTING TRADE NEGOTIATING AUTHORITY UNDER SECTION 102 OF THE TRADE ACT OF 1974, AS AMENDED, PROVIDES FOR NEGOTIATIONS TO REDUCE NON-TARIFF BARRIERS AND "OTHER RESTRICTIONS," BUT IS INSUFFICIENT TO COVER TARIFF REDUCTIONS OR NEW AGREEMENTS ON SERVICES, INVESTMENT, AND HIGH TECHNOLOGY.

-- THE ADMINISTRATION WILL PROPOSE LEGISLATION AUTHORIZING NEW NEGOTIATING AUTHORITY COVERING THESE IMPORTANT TRADE AREAS. SUBSEQUENT NEGOTIATIONS SHOULD ENHANCE U.S. FIRMS' ABILITY TO EXPORT AMERICAN PRODUCTS AND SERVICES STIMULATING NEW PRODUCTION AND EMPLOYMENT.

-- FULLY CAPABLE PORTS AND CHANNELS ARE ESSENTIAL TO MAKE U.S. COAL EXPORTS COMPETITIVE IN WORLD MARKETS. IN 1981, THE ADMINISTRATION PROPOSED A SYSTEM OF USER FEES FOR EXISTING PORT MAINTENANCE AND NEW PORT CONSTRUCTION. LOCAL GOVERNMENTS WOULD BE EMPOWERED TO SET UP THEIR OWN FINANCING ARRANGEMENTS FOR THE IMMEDIATE CONSTRUCTION OF FACILITIES IN THEIR AREAS.

-- THE ADMINISTRATION WILL WORK WITH THE 98TH CONGRESS TO PROVIDE FOR TIMELY AND EFFICIENT PORT CONSTRUCTION. DISCUSSIONS IN THE LAST CONGRESS CENTERED ON FUNDING FORMULAS WHICH WOULD NOT PENALIZE LOW-VOLUME PORTS. THE PRINCIPLE OF SELF-FINANCING FOR NEW FACILITIES HAS BEEN GENERALLY ACCEPTED.

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CONFIDENTIAL

CORRECTED VERSION
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TO PRIORITY FCO

TELEGRAM NUMBER 79 OF 13 JANUARY

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SAVING TO C.G.'S ATLANTA CHICAGO HOUSTON BOSTON CLEVELAND LOS ANGELES
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THE SECOND HALF

1. THE REAGAN ADMINISTRATION HAS GOT OFF TO A POOR START TO THE SECOND HALF OF THE PRESIDENT'S FIRST TERM. IT HAS BECOME ACCIDENT PRONE ON A NUMBER OF FRONTS SIMULTANEOUSLY.
2. TO BEGIN WITH, THE PRESIDENT IS LOSING RATHER A LOT OF HIS SENIOR APPOINTMENTS. ONE OF THE MOST ABLE OF HIS CABINET MEMBERS, THE SECRETARY OF TRANSPORTATION, DREW LEWIS, LEFT AT THE END OF 1982. NOW THE SECRETARY OF HEALTH AND HUMAN SERVICES, SCHWEIKER, HAS ALSO LEFT FOR PRIVATE INDUSTRY. EARLIER, THE VERY ABLE DEPUTY SECRETARY OF DEFENSE, CARLUCCI, ALSO LEFT. WHILE CHANGES IN THE CABINET ARE NOT UNUSUAL AT MID-TERM, THESE HAVE ALL THE APPEARANCES OF BEING HAPHAZARD AND HAVE ADDED TO THE APPEARANCE OF AN ADMINISTRATION NOT AT EASE WITH ITSELF. ONE RECALL'S LADY BRACKNELL'S OBSERVATION THAT TO LOSE ONE PARENT MAY BE COUNTED A MISFORTUNE TO LOSE TWO LOOKS LIKE CARELESSNESS. THERE IS A GOOD DEAL OF CARELESSNESS ABOUT THE WHITE HOUSE JUST NOW.
3. THIS IMPRESSION HAS BEEN COMPOUNDED BY THE DISARRAY IN THE ARMS CONTROL ESTABLISHMENT. HERE DISARRAY IS NOT TOO STRONG A WORD. FIRST THE SENATE HARDLINERS, LED BY HELMS, REFUSED TO CONFIRM A CAREER FOREIGN SERVICE OFFICER, GREY, AS ROSTOW'S DEPUTY. NOW ROSTOW'S RESIGNATION HAS BEEN REQUESTED AND GIVEN AND THERE SEEMS TO HAVE BEEN A GENERAL INFUX INTO THE AGENCY OF PEOPLE WHOSE SOUND HAWKISH CREDENTIALS ARE ONLY EXCEEDED BY THE TOTAL IGNORANCE OF A HIGHLY COMPLEX AND IMPORTANT SUBJECT. AS THE FRIENDLY SUPERPOWER'S REACTION TO THE HOSTILE SUPERPOWER'S CURRENT ACTIVITY ON THE ARMS CONTROL FRONT, THIS IS HARDLY REASSURING. THE WHITE HOUSE STATEMENT THAT THE ADMINISTRATION'S ALL-PURPOSE CALMER OF TROUBLED WATERS, GEORGE SHULTZ, IS TO HAVE OVERALL COORDINATION OF THE NEGOTIATIONS, IS SOME COMPENSATION. BUT EVEN SHULTZ CANNOT BE EVERYWHERE AT ONCE. GIVEN THE EXISTENCE OF THOSE AT THE PENTAGON WHO ARE OPPOSED TO ARMS CONTROL AT ALMOST ANY LIKELY PRICE, HE WILL NEED TO BE.
4. AT THE HEART OF THE PROBLEM IS, OF COURSE, THE DOMESTIC ECONOMY AND THE PROSPECTIVE BUDGET DEFICIT FOR FISCAL 1984. THE ADMINISTRATION IS TRYING TO GET ITS PROPOSAL TOGETHER, WHICH IT HAS TO SUBMIT TO THE CONGRESS BY THE END OF THE MONTH. ITS DIFFICULTIES IN SQUARING THE NECESSARY CIRCLES HAVE BEEN ILLUSTRATED BY A SERIES OF LEAKS WHICH HAVE INCURRED THE PRESIDENT'S DISPLEASURE.
5. ALL THIS HAS CAUSED SUCH NEWSPAPERS AS THE NEW YORK TIMES TO EXPRESS THE OPINION THAT "THE STENCH OF FAILURE HANGS OVER PRESIDENT REAGAN'S WHITE HOUSE". AND, ON THE OTHER SIDE OF THE

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POLITICAL SPECTRUM, THE WALL STREET JOURNAL THUNDERS THAT THE PRESIDENT MUST RETURN TO THE TRUE CONSERVATIVE PRINCIPLES ON WHICH HE WAS ELECTED (AND ADHERENCE TO WHICH HAVE CAUSED THE PRESENT PROBLEMS).

6. IT IS TOO EARLY TO DRAW ANY HARD AND FAST CONCLUSIONS FROM WHAT MAY TURN OUT TO BE ONLY LITTLE LOCAL DIFFICULTIES. THEY ARE, HOWEVER, ILLUSTRATIVE OF THE SEA CHANGE WHICH HAS COME OVER THE LOCAL POLITICAL SCENE TO WHICH I DREW ATTENTION IN MY ANNUAL REPORT. IT LOOKS AS IF IT IS HARD POUNDING AHEAD FOR THE ADMINISTRATION AND IT WILL BE INTERESTING TO OBSERVE HOW THE PRESIDENT STANDS UP TO WHAT FOR HIM WILL BE A NOVEL EXPERIENCE AND A REAL TEST OF HIS COMPETENCE TO GOVERN.

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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

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TO IMMEDIATE FCO

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FROM WASHINGTON 012300Z NOV 82.

TO IMMEDIATE F C O

TELEGRAM NUMBER 3514 OF 1 NOVEMBER

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Mr Gifford

Mr Lee

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RC

US MID-TERM ELECTIONS: 2 NOVEMBER.

1. YOU MAY FIND IT HELPFUL, AS A GUIDE TO TOMORROW'S MID-TERM ELECTIONS, TO HAVE SOME ACCOUNT OF WHAT IS - AND IS NOT - AT STAKE.

2. THE AMERICAN PRESS HAVE CHARACTERISED THE ELECTIONS AS A REFERENDUM ON MR REAGAN'S PRESIDENCY. AS SUCH THEY ARE NOT AN ESPECIALLY ACCURATE MEASURE SINCE, ON PAST FORM, LESS THAN 40 PER CENT OF THOSE ELIGIBLE TO VOTE WILL ACTUALLY DO SO AND, IN CHOSING A NEW CONGRESS, THE ELECTORATE TRADITIONALLY TAKES ACCOUNT OF LOCAL FACTORS: SO A POPULAR CANDIDATE HAS A GOOD CHANCE OF DEFYING THE NATIONAL TREND. BUT THE MID-TERM ELECTIONS NONETHELESS ARE THE ONLY POPULAR TEST OF HOW THE PRESIDENT IS DOING AND MR REAGAN HAS BEEN FIGHTING THIS CAMPAIGN AS IF THE FUTURE OF HIS PRESIDENCY DEPENDED ON IT. HE HAS CAMPAIGNED HARD OVER THE LAST MONTH, SPENDING MUCH OF HIS TIME OUT OF WASHINGTON THOUGH, PARADOXICALLY HE HAS VISITED ONLY 13 STATES, MOSTLY IN FRIENDLY TERRITORY, NOTABLY IN THE WEST WHERE THE EFFECTS OF UNEMPLOYMENT ARE LESS MARKED AND WHERE HIS PRESENCE HAS BEEN OF POSITIVE VALUE TO REPUBLICAN CANDIDATES. BUT IT IS NOTEWORTHY THAT THE PRESIDENT HAS BEEN ASKED TO STEER CLEAR OF SOME OF THE MORE CONTENTIOUS CAMPAIGNS WHERE REPUBLICAN CANDIDATES ARE TRYING TO DISTANCE THEMSELVES FROM HIS POLICIES AND ARE RUNNING ON THEIR OWN RECORD RATHER THAN ON

HIS POLICIES AND ARE RUNNING ON THEIR OWN RECORD RATHER THAN ON MR REAGAN'S COATTAILS - A CHANGE FROM 1980 WHEN SO MANY OF THEM CLAMBERED ABOARD HIS PRESIDENTIAL BANDWAGON.

3. THERE HAS BEEN ONLY ONE ISSUE IN THIS CAMPAIGN: THE ECONOMY AND THE PRESIDENT'S POLICIES FOR DEALING WITH IT. UNDER THE SLOGAN 'STAY THE COURSE' THE PRESIDENT HAS SAID THAT THE 13 MONTHS SINCE THE IMPLEMENTATION OF HIS FIRST TAX CUT ARE TOO SHORT A PERIOD OF TIME TO ALLOW JUDGMENT TO BE PASSED. HE HAS POINTED TO THE DRAMATIC DECREASE IN INFLATION (NOW 5 PER CENT), THE DROP IN INTEREST RATES, THE BOOM ON WALL STREET AND LAST WEEK'S POSITIVE INDEX OF LEADING ECONOMIC INDICATORS AS SIGNS THAT HIS POLICIES ARE WORKING. OPINION POLLS SHOW CONTINUED PUBLIC HOPE THAT IN DUE COURSE THE ECONOMY WILL IMPROVE. THE PRESIDENT'S OWN POPULARITY HAS CREPT UP AGAIN IN THE LAST MONTH.

4. THE DEMOCRATS HAVE FOCUSED HEAVILY ON THE RECORD LEVEL OF UNEMPLOYMENT, WHICH IS EXPECTED TO RISE STILL FURTHER, AND ON RECENT FIGURES SHOWING THAT THERE WERE MORE RECIPIENTS OF UNEMPLOYMENT CHEQUES LAST MONTH THAN EVER BEFORE. THEY POINT TO INDEPENDENT PREDICTIONS OF RECORD DEFICITS AS AN INDICATION THAT POLICIES MUST CHANGE AND HAVE RAISED THE SPECTRE THAT, INSTEAD OF FINDING FURTHER EXPENDITURE CUTS FROM THE DEFENCE PROGRAMME OR BE RAISING TAXES THE PRESIDENT WILL AGAIN TRY TO REDUCE SOCIAL PROGRAMMES INCLUDING SOCIAL SECURITY BENEFITS. THE ALLEGED REPUBLICAN THREAT TO SOCIAL SECURITY HAS DOMINATED THE LAST DAYS OF THE CAMPAIGN. MR REAGAN'S PAST PRONOUNCEMENTS ON THE ISSUE MAKE HIM VULNERABLE, PARTICULARLY AMONG THE ELDERLY TO WHOM HE WOULD NORMALLY LOOK FOR SUPPORT.

5. AGAINST THIS BACKGROUND THE POLLS SHOW A CLEAR NATIONAL SWING TO THE DEMOCRATS AND AGAINST THE REPUBLICANS (51-32 PER CENT IN THE LATEST NEW YORK TIMES SURVEY). THIS WILL UNDOUBTEDLY BE REFLECTED IN REPUBLICAN LOSSES IN TOMORROW'S ELECTION. ALL THE POLLSTERS AGREE THAT THE REPUBLICANS CAN EXPECT TO SUFFER A NET LOSS OF ABOUT HALF A DOZEN GOVERNORSHIPS, PARTICULARLY IN THE MID WEST WHICH IS AFFLICTED BY HEAVY UNEMPLOYMENT AND WHERE A NUMBER OF REPUBLICAN INCUMBENTS ARE STANDING DOWN THIS YEAR. WHERE THE POLLSTERS CANNOT AGREE IS ON THE STRENGTH OF THE ANTI-REPUBLICAN TIDE IN CONGRESS. IN THE SENATE (WHERE A THIRD OF THE SEATS ARE AT STAKE) THE DEMOCRATS WOULD HAVE TO GAIN 5 SEATS TO RETAKE CONTROL. REMEMBERING THEIR OWN SURPRISE CAPTURE OF THE SENATE IN 1980, THE REPUBLICANS ARE NERVOUS THAT A LAST MINUTE SWING TO THE

THE REPUBLICANS ARE NERVOUS THAT A LAST MINUTE SWING TO THE DEMOCRATS AMONG THE UNDECIDED VOTERS COULD TIP THE BALANCE. THERE ARE ENOUGH VULNERABLE REPUBLICAN SEATS TO MAKE THIS POSSIBLE THOUGH IT WOULD TAKE A MAJOR ROUT OF REPUBLICAN CANDIDATES FOR IT TO HAPPEN.

6. MOST ATTENTION WILL FOCUS ON THE HOUSE OF REPRESENTATIVES, ALL OF WHOSE MEMBERS ARE UP FOR RE-ELECTION, AND WHERE THE DEMOCRATS NOW HAVE A MAJORITY OF 49. THE AVERAGE POST-WAR LOSS OF SEATS FOR THE PARTY IN THE WHITE HOUSE AT THIS POINT IN A PRESIDENTIAL TERM HAS BEEN 12. IF THE DEMOCRATS WIN MORE THAN 12 SEATS THEY WILL THEREFORE CLAIM A VICTORY. IN FACT, THEY KNOW THEY MUST GET ABOVE 20 TO MAKE REAL POLITICAL IMPACT OR MUCH PRACTICAL DIFFERENCE IN TERMS OF BEING ABLE TO FORCE A CHANGE OF ECONOMIC POLICY. IF THE DEMOCRATS GAIN FEWER THAN 20 SEATS IT WILL MEAN THAT THE ELECTORATE IS STILL PREPARED TO GIVE THE PRESIDENT THE BENEFIT OF THE DOUBT. A REPUBLICAN LOSS OF BETWEEN 20 AND 30 HOUSE SEATS (THE FIGURE WHICH MOST OF THE PUNDITS HAVE OPTED FOR) WOULD BE BAD NEWS FOR THE REPUBLICANS. IT WOULD NOT, UNLESS COMBINED WITH LOSS OF THE SENATE, BE SEEN AS A DECISIVE VERDICT BUT IT WOULD INCREASE THE PRESSURES ON THE PRESIDENT TO MODERATE HIS ECONOMIC POLICIES AND MAKE IT MORE DIFFICULT FOR HIM TO CARRY THEM IN CONGRESS SHOULD HE DECLINE TO DO SO. A DEMOCRATIC GAIN OF MORE THAN 30 SEATS WOULD BE A SERIOUS BLOW TO THE REPUBLICANS IT WOULD, ON THE BASIS OF PAST ELECTION TRENDS, POINT TO REPUBLICAN LOSS OF THE PRESIDENCY IN TWO YEARS' TIME AND WOULD CALL IN QUESTION MR REAGAN'S AUTHORITY AS PRESIDENT AS WELL AS WHAT IS NOW HIS UNDISPUTED POSITION AS THE PARTY'S CANDIDATE IN 1984 SHOULD HE STILL WANT THE JOB.

7. THE POLLS CLOSE AT 8 PM LOCAL TIME ON 2 NOVEMBER, IE 1 AM LONDON TIME ON THE EAST COAST: 4 AM ON THE WEST COAST. FIRST RESULTS SHOULD COME THROUGH SHORTLY AFTER THE POLLS CLOSE ON THE EAST COAST.

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cc. Adrian Smith. (Policy Unit)

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TO IMMEDIATE F C O
TELEGRAM NUMBER 3189 OF 29 SEPTEMBER

FOR NAD
US WELFARE PROGRAMMES

1. FOLLOWING IS THE INFORMATION REQUESTED BY NO 10 DOWNING STREET ON THE WORKFARE PROGRAMME AND ON AID FOR FAMILIES WITH DEPENDENT CHILDREN (AFDC).

-(A) AFDC

THE AFDC PROGRAMME IS A MATCHING PROGRAMME FINANCED BY THE FEDERAL GOVERNMENT AND BY INDIVIDUAL STATES. THE FEDERAL CONTRIBUTION AMOUNTS TO 54 PERCENT OF THE TOTAL OUTLAY. AFDC PROVIDES ASSISTANCE TO FAMILIES WITH DEPENDENT CHILDREN, IE UP TO THE AGE OF 18, WHERE THE FAMILY INCOME IS BELOW 150 PERCENT OF THE STANDARD OF NEED, IE BASIC SUBSISTENCE LEVEL, AS DEFINED BY INDIVIDUAL STATES. IN ADDITION, TO QUALIFY FOR AFDC, A FAMILY HAS EITHER TO HAVE A CHILD WHICH IS BLIND OR DISABLED (MENTALLY OR PHYSICALLY); OR THE FAMILY MUST BE A ONE PARENT FAMILY OR THE FATHER UNEMPLOYED.

THE PROGRAMME COSTS 14 BILLION DOLLARS A YEAR, COVERING 3.6 MILLION FAMILY UNITS (10.4 MILLION INDIVIDUAL RECIPIENTS). THE FEDERAL SHARE OF OUTLAYS IN 1981 WAS 7.9 BILLION DOLLARS WITH TOTAL BENEFIT PAYMENTS AMOUNTING TO 12.8 BILLION DOLLARS AND WITH 1.2 BILLION DOLLARS BEING ABSORBED IN ADMINISTRATIVE AND TRAINING COSTS. THE MAXIMUM STATE CONTRIBUTION IS ABOUT 80 PERCENT BUT OUTLAYS VARY CONSIDERABLY FROM STATE TO STATE DEPENDING ON DIFFERENT WELFARE PRACTICES AND ON WHAT IS REGARDED AS THE BASIC STANDARD OF NEED EG IN CALIFORNIA AVERAGE MONTHLY PAYMENTS FOR A FAMILY OF FOUR UNDER AFDC WOULD BE 600 DOLLARS PER MONTH COMPARED WITH 140 DOLLARS A MONTH FOR A FAMILY OF FOUR IN TEXAS.

AFDC IS A CORNER-STONE PROGRAMME IN THE US WELFARE SYSTEM AND ELIGIBILITY FOR BENEFITS UNDER AFDC IS FREQUENTLY THE CRITERION FOR ELIGIBILITY FOR OTHER PROGRAMMES EG MEDICAID (FEDERAL MEDICAL INSURANCE) AND FOOD STAMPS. UNDER PRESIDENT REAGAN'S NEW FEDERALISM INITIATIVE ANNOUNCED EARLIER THIS YEAR, THE FEDERAL GOVERNMENT WOULD ASSUME THE FULL COSTS OF MEDICAID (ESTIMATED TO REACH 19.1 BILLION DOLLARS IN 1984) WHILE, IN THE SAME YEAR, INDIVIDUAL STATES WOULD ASSUME THE FULL COSTS OF AFDC AND FOOD STAMPS (AT A COST OF 16.5 BILLION DOLLARS). THE US GOVERNOR'S CONFERENCE (THE COLLECTIVE VOICE OF ALL 50 STATE GOVERNORS) HAVE NOT ACCEPTED THIS PROPOSAL AND DISCUSSION BETWEEN THE GOVERNORS AND THE ADMINISTRATION CONTINUES.

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/ (B) WORKFARE

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(B) WORKFARE PROGRAMME

FEDERAL SOCIAL SECURITY LAWS REQUIRE STATES TO REGISTER AFDC WELFARE APPLICANTS AND TO REQUIRE BENEFIT RECIPIENTS TO BE AVAILABLE FOR, AND TO SEARCH FOR, WORK. THE 1981 BUDGET RECONCILIATION ACT INCLUDES A PROVISION WHICH ENABLES STATES TO INTRODUCE WORKFARE SCHEMES UNDER THE COMMUNITY WORK EXPERIENCE PROGRAMME. UNDER THIS SCHEME, A STATE CAN REQUIRE AN AFDC WELFARE RECIPIENT TO WORK IN PUBLIC EMPLOYMENT IN EXCHANGE FOR THE WELFARE PAYMENTS. THE LEGISLATION REQUIRES THAT THE JOB UNDERTAKEN MUST OFFER WORK EXPERIENCE BUT MUST NOT DISPLACE AN EXISTING EMPLOYEE. THE JOB MUST ALSO BE ONE THAT COULD NOT BE FILLED BY ADVERTISING. LAST MONTH'S TAX EQUITY ACT ALLOWED STATES TO REQUIRE AFDC APPLICANTS TO SEARCH FOR WORK PRIOR TO RECEIVING WELFARE PAYMENTS.

THE LEGISLATION ALLOWS STATES TO STRUCTURE THE WORKFARE SCHEME AS THEY THINK FIT. ABOUT 15 STATES HAVE SO FAR INTRODUCED SOME FORM OF WORKFARE PROGRAMME BUT MOST ARE LIMITED TO A COUNTY OR AN EVEN SMALLER ADFJA. ONLY THREE STATES HAVE STATEWIDE SCHEMES. WEST VIRGINIA HAS A STATEWIDE SCHEME FOR UNEMPLOYED FATHERS, OKLAHOMA HAS A WORKFARE SCHEME FOR UNEMPLOYED MOTHERS AND IDAHO HAS A SCHEME WHICH CATERES FOR ANY UNEMPLOYED PARENT.

SOME STATES HAVE LONG REQUIRED RECIPIENTS OF STATE WELFARE FUNDS TO WORK, BUT THESE SCHEMES ARE DISTINCT FROM THE PRESENT WORKFARE PROGRAMME. NEW YORK, FOR EXAMPLE, HAS A LONG-STANDING PROGRAMME IN ELEVEN OF ITS COUNTIES. UTAH HAS A PROGRAMME WHICH INCLUDES A STRONG ELEMENT OF TRAINING. SOME STATES OPERATE A 'GRANT DIVERSION' SCHEME UNDER WHICH STATE WELFARE RECIPIENTS ARE GIVEN JOBS IN PRIVATE SECTOR COMPANIES - THE COMPANY RECEIVING THE WELFARE BENEFITS AND THE WORKER RECEIVING FROM THE EMPLOYER THE MINIMUM WAGE. UNDER RONALD REAGAN, CALIFORNIA HAD A WORK EXPERIENCE PROGRAMME WHICH REQUIRED BENEFIT RECIPIENTS TO WORK IN PUBLIC SECTOR JOBS.

REPORTS FROM THE THREE STATES WITH STATEWIDE WORKFARE PROGRAMMES SEEM TO INDICATE THAT THE PROGRAMMES ARE POPULAR, AT LEAST, WITH THE LEGISLATORS. THE PUBLIC SECTOR JOBS CREATED ARE SAID TO VARY IN TYPE BUT ARE MAINLY IN THE CLERICAL AND MAINTENANCE OCCUPATIONS. THE STATE OFFICIALS ADMINISTERING THE PROGRAMME ARGUE THAT THE JOBS DO PROVIDE THE NECESSARY WORK EXPERIENCE. THE SCOPE IS NONETHELESS LIMITED BY PUBLIC SECTOR UNION OPPOSITION TO THE

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PROGRAMMES AND SOME STATES HAVE FOUND THAT THERE ARE COSTS INVOLVED WHICH ARE NOT IMMEDIATELY APPARENT - FOR EXAMPLE IN SUPERVISING THE WELFARE WORKER. CRITICS ALSO CLAIM THAT THE JOBS ARE GENERALLY MENIAL AND DO NOT ALLOW THE WELFARE RECIPIENT TO GET OUT OF THE CIRCUMSTANCES WHICH LED TO THE NEED FOR WELFARE. A LARGE PROPORTION OF THE WELFARE RECIPIENTS ARE SINGLE PARENTS AND CRITICS OF THE SCHEME MAINTAIN THAT SERIOUS PROBLEMS ARISE IN ORGANISING CHILDCARE - MANY OF THE PARENTS BEING UNABLE TO AFFORD THE CHILDCARE FACILITIES. FINALLY, CRITICS ARGUE THAT WELFARE RECIPIENTS WOULD BENEFIT MOST FROM SOME FORM OF TRAINING TO EQUIP THEM WITH JOB SKILLS AND THAT THE WORKFARE SCHEME IS TOO NARROW IN SCOPE TO ALLOW THE NECESSARY PROVISIONS FOR TRAINING.

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TO ROUTINE FCO

TELEGRAM NUMBER 2870 OF 27 AUGUST

INFO SAVING CG'S USA, UKMIS NEW YORK

PRESIDENT REAGAN AT MID TERM

1. CONGRESS AND THE PRESIDENT ARE ON HOLIDAY. NEITHER WILL RETURN TO WASHINGTON UNTIL AFTER LABOUR DAY (6 SEPTEMBER) WHICH WILL ALSO MARK THE START OF THE CAMPAIGN FOR THE MID TERM CONGRESSIONAL ELECTIONS. THIS IS THEREFORE A GOOD MOMENT TO TAKE STOCK.
2. MR REAGAN WAS ELECTED TWO YEARS AGO ON THE LOWEST TURNOUT OF VOTERS SINCE 1948. THE EXTENT OF HIS VICTORY WAS MORE A MEASURE OF CARTER'S COLLAPSE AS A CREDIBLE PRESIDENT THAN ENTHUSIASM FOR MR REAGAN. INDEED, HE HAD BEEN CONSIDERED AN UNELECTABLE IDEOLOGUE BY MOST OF HIS OWN PARTY UNTIL A FEW MONTHS BEFORE. BUT IN THE END, THE ELECTORATE CHOSE MR REAGAN, NOT SO MUCH BECAUSE THEY ENDORSED HIS PARTICULAR BRAND OF CONSERVATISM AS BECAUSE HE OFFERED TOUGH-MINDED, BUT WARM-HEARTED LEADERSHIP AND UNDERTOOK TO RESTORE AMERICA THROUGH A STRONG DEFENCE, A SOUND ECONOMY, AND A REDUCTION IN GOVERNMENT INTERFERENCE.
3. MANY WERE SCEPTICAL ABOUT WHETHER MR REAGAN'S ECONOMIC PLANS WOULD WORK AND, IN PARTICULAR, WHETHER HE COULD SECURE THE DRASTIC CUTS IN GOVERNMENT SPENDING WHICH WOULD ENABLE HIM TO CARRY OUT OTHER PARTS OF HIS PROGRAMME WITHOUT INCURRING ENORMOUS DEFICITS. BUT HIS BASIC APPROACH: TO CUT GOVERNMENT SPENDING: TO CUT DIRECT TAXATION AND TO INCREASE SPENDING ON DEFENCE WAS VERY POPULAR, AND STILL IS. MR REAGAN'S SUPPORTERS KNEW THEY WOULD HAVE TO TIGHTEN THEIR BELTS. WHAT FEW OF THEM CAN HAVE FORESEEN WAS THE EXTENT OF THE RECESSION, THE STEEP RISE IN UNEMPLOYMENT, AND THE IMPACT WHICH CUTS IN GOVERNMENT SPENDING WOULD HAVE ON MIDDLE-CLASS AMERICANS WHO BELIEVED THAT THEY HAD MOST TO GAIN FROM MR REAGAN'S POLICIES.
4. MR REAGAN HAD PERHAPS UNDER-ESTIMATED THE EXTENT TO WHICH AMERICA HAD BECOME A WELFARE STATE. ALL WERE IN FAVOUR OF CUTTING GOVERNMENT SPENDING. BUT IT SOON BECAME APPARENT THAT ALMOST EVERY FAMILY IN AMERICA WAS THE BENEFICIARY OF ONE OR OTHER SOCIAL PROGRAMME, BE IT STUDENT LOANS, MEDICARE OR SOCIAL SECURITY (EG STATE PENSIONS) AND THAT IN A TIME OF RECESSION AND RISING UNEMPLOYMENT, MANY OF MR REAGAN'S MIDDLE-CLASS SUPPORTERS HAD BECOME MORE DEPENDENT ON THE STATE THAN THEY HAD REALISED - AND RESENTFUL OF ANY ATTEMPT TO ERODE, IN HARD TIMES, THE BENEFITS WHICH THEY HAD EARNED IN EASIER DAYS. CONGRESS' UNWILLINGNESS TO CUT SPENDING AS MUCH AS THE PRESIDENT WOULD LIKE, AND PUBLIC REACTION TO THE PRESIDENT'S OWN ATTEMPT TO GRASP THE NETTLE OF SOCIAL SECURITY, REPRESENTED THE FIRST CLEAR SIGN THAT THE ELECTORATE WAS UNWILLING TO PAY THE SHORT TERM PRICE HE WAS ASKING FOR THE PRIZE OF LONGER TERM PROSPERITY.

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/ 5. MR REAGAN

5. MR REAGAN HAS NOW HAD TO CHANGE TACK BY ESPOUSING A TAX INCREASE TO WHICH, BY INSTINCT, HE IS OPPOSED, IN ORDER TO KEEP DEFICITS WITHIN TOLERABLE LIMITS. HE HAS SPENT TOO MUCH OF HIS CAREER DECRYING HIGH DEFICITS - AND THE RAISING OF TAXES TO DEAL WITH THEM - TO BE ABLE TO CLAIM CONVINCINGLY THAT HE IS STILL CHARTING HIS ORIGINAL COURSE. CONVERSELY, HE HAS RECEIVED LITTLE CREDIT FOR HALVING THE RATE OF INFLATION (LARGELY ATTRIBUTED TO THE FED'S TIGHT MONETARY POLICY) WHILE GETTING MOST OF THE BLAME FOR HIGH INTEREST RATES.

6. MR REAGAN HAS THUS FAILED TO BRING DOWN GOVERNMENT SPENDING AS MUCH AS HE WOULD HAVE WISHED. BUT HE HAS ALIENATED A NUMBER OF IMPORTANT VOTER GROUPS (EG BLUE COLLAR WORKERS AND MINORITIES) BY BRINGING IT DOWN AS MUCH AS HE HAS. THE TAX CUTS FOR INDIVIDUALS AND BUSINESS REMAIN BUT THERE IS LITTLE SIGN YET OF THE RETURN OF BUSINESS CONFIDENCE WHICH THEY WERE DESIGNED TO GENERATE. HIGH INTEREST RATES HAVE NEGATED THEIR EFFECT. MR REAGAN'S ACHILLES HEEL HAS PEHAPS BEEN HIS COMMITMENT TO MAJOR INCREASES IN DEFENCE SPENDING OVER THE NEXT THREE YEARS. SOME INCREASE IN DEFENCE SPENDING WAS AND

STILL IS THOUGHT NECESSARY BY MOST AMERICANS. BUT MANY ARE COMING TO BELIEVE THAT THE SCALE OF DEFICITS NOW CONTEMPLATED ARE TOO HIGH A PRICE TO PAY FOR SUCH A STRONG DEFENCE. MOST AMERICANS ACCEPTED MR REAGAN'S ARGUMENT THAT, UNDER CARTER, THE UNITED STATES HAD PUT ITSELF AT A NUCLEAR AND CONVENTIONAL DISADVANTAGE TO THE SOVIET UNION. THEY DID SO BECAUSE THEY WERE SICK OF SEEING AMERICA BEING PUSHED AROUND ABROAD. IRAN WAS THE FINAL STRAW. MR REAGAN VOICED THEIR SENSE OF HUMILIATION AND FRUSTRATION. BUT INsofar AS THE U S WINDOW OF VULNERABILITY FOR THE AMERICAN PUBLIC WAS AS MUCH ONE OF MORALE AS OF MISSILES, MR REAGAN HAS ALREADY GONE A LONG WAY TOWARDS CLOSING IT. THERE IS LITTLE STOMACH FOR A MILITARY CONFRONTATION WITH ANYONE, LEAST OF ALL WITH THE SOVIET UNION. DOWNING LIBYAN AIRCRAFT WAS POPULAR: THE PROSPECT OF MILITARY ENGAGEMENT OF ANY KIND - BE IT IN EL SALVADOR OR LEBANON - IS NOT.

7. BY THE SAME TOKEN, THE PRESIDENT'S APPROACH TO THE SOVIET UNION HAS GIVEN IMPETUS AND POPULARITY TO THE NUCLEAR FREEZE MOVEMENT IN THE UNITED STATES ON A SCALE WHICH WOULD HAVE BEEN THOUGHT INCONCEIVABLE A YEAR AND A HALF AGO. THE MAIN CONGRESSIONAL SUPPORTERS OF THE FREEZE DO NOT SEE IT AS A SERIOUS CONTRIBUTION TO THE DISARMAMENT DEBATE SO MUCH AS A MEANS OF KEEPING THE ADMINISTRATION UP TO THE MARK IN THE DISARMAMENT NEGOTIATIONS. THE ZERO OPTION WOULD NEVER HAVE BEEN ADOPTED WITHOUT IT. IT IS A MEASURE OF THE CHANGED PUBLIC MOOD THAT, IN THE FORTHCOMING ELECTION CAMPAIGN, THE ONUS WILL BE ON THOSE CONGRESSMEN WHO OPPOSE THE NUCLEAR FREEZE TO EXPLAIN WHY. FOR ALL THESE REASONS, MANY NOW BELIEVE THAT WHEN, AFTER THE NOVEMBER ELECTIONS, THE PRESIDENT TURNS HIS ATTENTION AGAIN, AS HE MUST, TO MEASURES TO REDUCE THE DEFICIT, HE WILL LOOK AGAIN AT THE DEFENCE BUDGET. BUT THERE WILL ALSO BE PRESSURE ON HIM, AS AN ALTERNATIVE, TO REFLATE.

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8. AGAINST THIS BACKGROUND, THE REPUBLICANS ARE NOT SANGUINE ABOUT THE PROSPECTS IN THE NOVEMBER ELECTIONS. ALL 435 MEMBERS OF THE HOUSE (243 DEMOCRATS AND 192 REPUBLICANS) WILL BE SEEKING RE-ELECTION AS WILL ONE THIRD OF THE SENATE (20 DEMOCRATS, 12 REPUBLICANS AND 1 INDEPENDENT). THIRTY-SIX GOVERNORSHIPS (20 DEMOCRATS AND 16 REPUBLICANS) ARE AT STAKE. IN THE SENATE, THE EFFECTIVE REPUBLICAN MAJORITY IS SEVEN. A YEAR AGO, THE REPUBLICANS SPOKE OF INCREASING THEIR SENATE MAJORITY. NOW, THEY WILL COUNT THEMSELVES LUCKY TO HANG ON TO A BARE MAJORITY - LOSING ONE OR TWO SEATS - AND MAYBE PICKING UP ONE OR TWO. IN THE HOUSE, SOME LOSSES ARE USUAL AT MID TERM. IN 1978, CARTER LOST 3 SENATE AND 12 HOUSE SEATS - ABOUT AVERAGE. MOST US EXPERTS THINK THE REPUBLICANS WILL DO WORSE THAN THAT. THE BIG QUESTION IS HOW MUCH WORSE. IT MAY BE WORTH NOTING THAT THE LAST TIME MID TERM ELECTIONS WERE FOUGHT WITH UNEMPLOYMENT AT OVER 7 PER CENT (1958) THE REPUBLICANS LOST NEARLY 50 SEATS. OVER THE LAST HALF-CENTURY NO PARTY THAT HAS LOST MORE THAN A COMBINED TOTAL OF 35 SENATE AND HOUSE SEATS AFTER TWO YEARS IN POWER HAS RETAINED THE WHITE HOUSE TWO YEARS LATER. THE IMPLICATIONS ARE OBVIOUS FOR THIS AUTUMN WHEN UNEMPLOYMENT WILL BE AT 10 PER CENT. BUT THERE ARE COMPENSATORY FACTORS FOR THE REPUBLICANS. SINCE THE ELECTORATE IS HALF A MILLION STRONG IN EACH CONGRESSIONAL DISTRICT, TELEVISION IS A VITAL PART OF THE CAMPAIGN. THE REPUBLICANS CAN AFFORD A MEDIA BLITZ IN KEY DISTRICTS. THEY HAVE DOLLARS 30 MILLION TO SPEND IN THE CAMPAIGN. THE DEMOCRATS HAVE DOLLARS 3 MILLION. REPUBLICAN TV COMMERCIALS BLAMING THE DEMOCRATS FOR THE FAILURES OF THE PAST AND CLAIMING THAT MR REAGAN HAS MADE A START TO PUT THINGS RIGHT ARE ALREADY BEING AIRED. POLLS SHOW THAT CARTER IS STILL BLAMED JUST AS MUCH AS REAGAN FOR THE COUNTRY'S ECONOMIC CONDITION. MOST MEMBERS OF CONGRESS BELIEVE THAT MR REAGAN STILL HAS STRONG CREDIBILITY WITH THE AMERICAN PEOPLE, HENCE THE DILEMMA FOR THOSE REPUBLICANS WHO VOTED AGAINST THE TAX BILL LAST WEEK AND THE SATISFACTION OF THE DEMOCRATS WHO SUPPORTED IT AND WHO THEREFORE BELIEVE THEY HAVE MADE IT MORE DIFFICULT FOR MR REAGAN TO ATTACK THEM IN THE FORTHCOMING CAMPAIGN. MR REAGAN HIMSELF HAS STRIVEN HARD TO PRESERVE HIS IMAGE AS THE OUTSIDER TAKING ON THE WASHINGTON ESTABLISHMENT. THIS MAY ALIENATE WHAT MR REAGAN CALLS THE STRIPED PANTS BRIGADE ON THE POTOMAC BUT ELSEWHERE THE MESSAGE GOES DOWN WELL. INDEED, ONE IMPORTANT ASPECT OF THE PRESENT POLITICAL SCENE IS THAT MANY AMERICANS, WHILE DISAPPOINTED THAT EVENTS HAVE CONSPIRED TO PREVENT MR REAGAN FROM DOING WHAT HE HAD SET OUT TO DO, STILL BELIEVE IN HIM. THE DEMOCRATS CERTAINLY DO NOT HAVE MUCH POSITIVE APPEAL AS AN ALTERNATIVE.

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9. I DO NOT FORESEE ANY ECONOMIC NEWS IN THE NEXT TWO MONTHS WHICH IS LIKELY TO RELIEVE THE PESSIMISM OF THE U S ELECTORATE. THE STOCK EXCHANGE BOOM MAY IMPROVE THE MICRO-CLIMATE BUT IT WILL NOT RELIEVE THE ECONOMIC DIFFICULTIES OF THE MAJORITY OF VOTERS. THE NAME OF NOVEMBER'S GAME WILL THEREFORE BE DAMAGE LIMITATION FOR THE REPUBLICANS. THE TURNOUT WILL BE LOW: IT WAS ONLY 38 PERCENT IN THE LAST MID TERM ELECTIONS. IF THE REPUBLICANS KEEP CONTROL OF THE SENATE, LIMIT THEIR HOUSE LOSSES TO 25 AND KEEP GOVERNORSHIP LOSSES DOWN TO ABOUT HALF A DOZEN, THEY WILL HAVE DONE WELL AND CAN THEN BE EXPECTED TO HOLD BROADLY TO THEIR PRESENT COURSE. IF THEY WERE TO LOSE THE SENATE AND/OR MORE THAN ABOUT 35 HOUSE SEATS, THEY WOULD HAVE SUFFERED A DEBACLE, AND WOULD BE FORCED TO CONSIDER SOME SUBSTANTIAL ADJUSTMENTS TO THE POLICIES OF THEIR FIRST TWO YEARS.

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PRIME MINISTER

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Prime Minister (2)

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RECENT CHANGES IN THE ECONOMIC TEAM IN THE UNITED STATES

The recent departure of Murray Weidenbaum from his post as Chairman of the Council of Economic Advisers, completes a remarkable exodus of "supply-siders" from the administration. (They include, from the Treasury, Norman Ture and Paul Craig Roberts - two of the most optimistic supply-siders.)

I do not think that this change presages any dramatic shift in general economic policy. But it may mark a change in the rhetoric. The supply-siders clearly did not secure the domination of economic policy to which they aspired.

The successor to Weidenbaum is likely to be Allan Greenspan. He was Chairman of the Council of Economic Advisers under the Ford administration. He is firmly in the mould of the traditional conservative economist, with a good background in financial markets. He has a firm grip on reality and he is a personality not susceptible to extreme or rash reactions to events. He would strongly have supported our medium term financial strategy, and in particular the importance of a progressive reduction in the budget deficit. Although he may have some difficulties with Volcker, these are very likely to be merely technical matters and not issues of substance. His appointment presages a new accord between the Fed and the White House.

In short, the changes represent the reconquest of Government policies by the main-stream conservative economists in the shape of Arthur Burns, Herbert Stein, Willie Fellner and Gotfried Harbeller. From our viewpoint this is indeed good news. I suspect it will have the effect of reassuring markets that a knowledgeable and wise team (paralleled by George Schwartz in State) is now at the helm.

Schwartz ?



ALAN WALTERS

26 July 1982

USA

GRS 780

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FM WASHINGTON 150046Z JUL 82

TO PRIORITY F C O

TELEGRAM NUMBER 2432 OF 14 JULY

INFO PARIS, BONN, MOSCOW, PEKING, UKDEL NATO, UKMIS NEW YORK, TOKYO.

INFO SAVING OTHER EC POSTS, CAIRO, TEL AVIV, AMMAN, JEDDA, BAGHDAD, DAMASCUS, ANKARA, LISBON, OTTAWA, OSLO, REYKJAVIK.

M I P T (NOT TO ALL)

SHULTZ CONFIRMATION HEARINGS

1. THERE IS NO DOUBT THAT SHULTZ WILL BE CONFIRMED BY AN OVERWHELMING VOTE IN THE SENATE. BOTH DEMOCRATS AND REPUBLICANS IN THE FOREIGN RELATIONS COMMITTEE HAVE WELCOMED HIS NOMINATION AND HE HAS DEALT REASSURINGLY BUT UNAMBIGUOUSLY WITH QUESTIONS THAT HAVE BEEN RAISED AS TO WHETHER HIS LONG ASSOCIATION WITH BECHTEL, WITH ITS CONSIDERABLE MIDDLE EASTERN INTERESTS, WOULD IN ANY WAY AFFECT HIS JUDGEMENT ON ISSUES OF POLICY.

2. AT THE SAME TIME, IT IS CLEAR THAT SHULTZ'S APPROACH TO MIDDLE EASTERN ISSUES WILL BE DIFFERENT FROM THAT OF HIS PREDECESSOR. I WOULD NOT EXPECT A CHANGE OF POLICY. SHULTZ HIMSELF INDICATED DURING THE HEARINGS, WHEN ASKED IF HE WOULD GET TOUGH WITH ISRAEL, THAT HIS EFFORTS MUST REFLECT THE SUPPORT THEY COULD COMMAND WITHIN CONGRESS AND THE COUNTRY. ALTHOUGH THERE IS CONSIDERABLE DISMAY HERE AT ISRAELI ACTIONS THERE IS NO SIGN OF THAT DISMAY BEING TRANSLATED INTO PRESSURE FOR A DIFFERENT POLICY. WHAT DID COME THROUGH CLEARLY AND REPEATEDLY IN SHULTZ'S TESTIMONY WAS HIS FEEL FOR THE ARAB WORLD, A STRONG PERSONAL CONVICTION THAT SOMETHING MUST BE DONE TO HALT THE BLOODSHED AND HIS DETERMINATION THAT THE U.S. SHOULD PLAY AN ACTIVE PART IN TRYING TO RESOLVE THE CENTRAL ISSUE OF THE PALESTINIANS. SHULTZ'S ATTITUDE TO MIDDLE EAST ISSUES AND HIS AWARENESS OF ARAB CONCERNS, AS WELL AS U.S. INTERESTS IN THE ARAB WORLD, ARE DIFFERENT FROM THOSE OF HIS PREDECESSOR.

3. ON EAST/WEST RELATIONS AND RELATIONS WITH CHINA/TAIWAN SHULTZ TOOK AN ORTHODOX ADMINISTRATION LINE. HE STUCK TO HIS VIEW OF ECONOMIC SANCTIONS IN GENERAL, NAMELY THAT THEY ARE A BAD IDEA, BUT GAVE QUITE A CONVINCING IMPRESSION THAT HE ACCEPTS THAT THERE CAN BE OVERRIDING POLITICAL CONSIDERATIONS, AS IN PRESIDENT REAGAN'S DECISION OVER THE PIPELINE.

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4. THE OTHER AREA WHERE SHULTZ'S EMPHASIS WAS DIFFERENT FROM HAIG WAS ON LATIN AMERICA. SHULTZ SAID THAT HE KNEW SOUTH AMERICA QUITE WELL, CENTRAL AMERICA LESS WELL. BUT HE LAID STRONG EMPHASIS ON THE UNDERLYING ECONOMIC AND SOCIAL PROBLEMS OF THE REGION, MAKING CLEAR THAT MILITARY SUPPORT WAS ONLY A MEANS TO AN END AND NOT AN END IN ITSELF. HE ALSO SPOKE UP STRONGLY FOR MULTILATERAL AID AND IN PARTICULAR FOR THE INTER-AMERICAN DEVELOPMENT BANK, SUGGESTING THAT HE AGREED WITH THOSE SENATORS WHO THOUGHT IT A MISTAKE FOR THE ADMINISTRATION TO BE FUNDING A CARIBBEAN BASIN INITIATIVE AT THE EXPENSE OF THE U.S. CONTRIBUTION TO THE IADB.

5. SHULTZ SAID A NUMBER OF TIMES THAT FOREIGN POLICY WOULD BE MADE BY THE PRESIDENT THOUGH HE WOULD BE CLOSELY INVOLVED IN ITS FORMULATION AND EXECUTION. HE HAD BEEN PROMISED DIRECT ACCESS TO THE PRESIDENT WHENEVER HE WANTED AND IT WAS FROM THE PRESIDENT HE WOULD TAKE HIS ORDERS. AT THE SAME TIME, HE WOULD WORK CLOSELY WITH JUDGE CLARK. THROUGHOUT THE HEARINGS, HIS MANNER WAS AS RELAXED AND LOW KEY AS HAIG'S HAD BEEN TENSE AND COMBATIVE. BUT HE DEALT FIRMLY WITH ONE SENATOR WHO WAS CLEARLY NEEDLING HIM AND THREW OFF ONE OR TWO OTHERS WHO WERE NIPPING AT HIS HEELS WITH EASE AND GOOD HUMOUR. THERE IS CONFIDENCE THAT HE WILL BE A MAJOR ASSET TO THE ADMINISTRATION.

FCO PASS SAVING ATHENS, BRUSSELS, COPENHAGEN, DUBLIN, UKREP
BRUSSELS, LUXEMBOURG, ROME, THE HAGUE, ANKARA, LISBON, OTTAWA,
OSLO, REYKJAVIK, CAIRO, TELAVIV, AMMAN, JEDDA, BAGDAD, DAMASCUS.

HENDERSON

(REPEATED AS REQUESTED)

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UNCLASSIFIED
 FM WASHINGTON 140008Z JUL 82
 TO PRIORITY F C O
 TELEGRAM NUMBER 2420 OF 13 JULY
 INFO CAIRO, TEL AVIV, AMMAN, JEDDA, DAMASCUS, UKMIS NEW YORK,
 TEHRAN, BAGHDAD.

Prime Directive

Interesting. Schultz has new things to say, for a number of the US government, on the Middle East.

A.S.C. 14.
7

SCHULTZ CONFIRMATION HEARINGS: THE MIDDLE EAST

1. IN HIS OPENING STATEMENT IN SENATE CONFIRMATION HEARINGS ON HIS APPOINTMENT ON 13 JULY, SHULTZ SAID THAT THE LEBANESE DESERVED A CHANCE TO GOVERN THEMSELVES, FREE FROM THE PRESENCE OF THE ARMED FORCES OF ANY OTHER COUNTRY OR GROUP. THE AUTHORITY OF THE GOVERNMENT OF LEBANON MUST EXTEND TO ALL ITS TERRITORY. WHAT WAS NOW GOING ON IN LEBANON MUST MARK THE END OF THIS CYCLE OF TERROR RATHER THAN SIMPLY THE LATEST IN A CONTINUING SERIES OF SENSELESS AND VIOLENT ACTS. THE LEBANESE CRISIS MADE PAINFULLY CLEAR ONE OF THE CENTRAL REALITIES OF THE MIDDLE EAST: THE LEGITIMATE NEEDS OF THE PALESTINIAN PEOPLE MUST BE ADDRESSED AND RESOLVED URGENTLY AND IN ALL THEIR DIMENSIONS. THE CAMP DAVID FRAMEWORK CALLED FOR TEMPORARY ARRANGEMENTS WHICH WOULD PROVIDE FULL AUTONOMY FOR THE PALESTINIANS OF THE WEST BANK AND GAZA AND ALSO SPOKE ELOQUENTLY AND SIGNIFICANTLY OF A SOLUTION THAT MUST RECOGNISE THE LEGITIMATE RIGHTS OF THE PALESTINIAN PEOPLE. THE U.S. WOULD REMAIN A FULL PARTNER IN THE NEGOTIATIONS. IF THEY WERE TO SUCCEED, REPRESENTATIVES OF THE PALESTINIANS MUST PARTICIPATE IN THE NEGOTIATING PROCESS. THE BASIS MUST ALSO BE FOUND FOR OTHER COUNTRIES IN THE REGION, IN ADDITION TO ISRAEL AND EGYPT, TO JOIN IN THE PEACE MAKING PROCESS. THE U.S. HAD VITAL INTEREST THROUGHOUT THE ARAB WORLD AND ITS FRIENDLY RELATIONS WITH THE GREAT MAJORITY OF ARAB STATES HAD ASSISTED IT IN DEALING WITH THE LEBANESE CRISIS. WIDE AND EVER-STRENGTHENING TIES WITH THE ARABS WERE OF MANIFEST IMPORTANCE TO U.S. SECURITY: IT WAS FROM THE ARABS THAT THE WEST GOT MUCH OF ITS OIL AND WITH THEM THAT IT SHARED AN INTEREST AND MUST COOPERATE IN RESISTING SOVIET IMPERIALISM. SHULTZ ALSO REFERRED TO WHAT HE CALLED A FRESH DYNAMISM IN THE BRILLIANT ARAB HERITAGE OF SCIENCE, CULTURE AND THOUGHT. HE WOULD DO ALL IN HIS POWER TO SUSTAIN AND FURTHER U.S./ARAB RELATIONSHIPS.

2. REFERRING TO ISRAEL AS AMERICA'S CLOSEST FRIEND IN THE MIDDLE EAST, SHULTZ SAID THAT NO ONE SHOULD UNDERESTIMATE THE DEPTH AND DURABILITY OF AMERICA'S COMMITMENT TO THE SECURITY OF ISRAEL OR U.S. READINESS TO ENSURE THAT ISRAEL HAD THE NECESSARY MEANS TO DEFEND HERSELF. THE U.S. OWED IT TO ISRAEL, IN THE CONTEXT OF THE SPECIAL RELATIONSHIP BETWEEN THE TWO COUNTRIES, TO WORK WITH HER TO BRING ABOUT A COMPREHENSIVE PEACE, ACCEPTABLE TO ALL THE PARTIES INVOLVED, WHICH WAS THE ONLY SURE GUARANTEE OF SURE AND DURABLE SECURITY. HE DARED TO HOPE THAT THE U.S. COULD ARRIVE AT AN AGREEMENT WHICH WOULD SATISFY THE VITAL SECURITY OF INTERESTS OF ISRAEL AND THE POLITICAL ASPIRATIONS OF THE PALESTINIANS, WOULD MEET THE CONCERNS OF THE OTHER PARTIES DIRECTLY INVOLVED AND WIN THE ENDORSEMENT OF THE INTERNATIONAL COMMUNITY.

3. IN RESPONSE TO QUESTIONS, SHULTZ MADE THE FOLLOWING POINTS.

(A) LEBANON

- (I) SHULTZ SAID HE FAVOURED THE USE OF U.S. FORCES IN BEIRUT IF THEY COULD BE USED PROPERLY AND SAFELY TO REMOVE THE PLO FIGHTING MEN FROM THE CITY. THE U.S. WOULD NEED TO WORK ALONGSIDE AT LEAST ONE OTHER COUNTRY AND SHULTZ STRONGLY IMPLIED THAT THE U.S. ROLE WOULD BE LIMITED TO EVACUATING THE PLO FIGHTERS. HE DISPUTED SENATOR GLENN'S CONTENTION THAT EITHER THE PLO WOULD LEAVE VOLUNTARILY (AVOIDING THE NEED FOR U.S. TROOPS) OR, IF THEY DID NOT, THAT THE U.S. WOULD BE INVOLVED IN A COMBAT SITUATION: THE PRESENCE OF U.S. TROOPS CAPABLE OF MAINTAINING THE PEACE WOULD MAKE THE OUTBREAK OF VIOLENCE LESS LIKELY. ONE OF THE MAIN CURRENT PROBLEMS WAS THAT IT WAS NOT CERTAIN WHERE THE PLO WOULD GO. NO COUNTRY APPEARED WILLING TO RECEIVE THEM AND THAT FACT ALONE CONTAINED A MESSAGE. MANY COUNTRIES WOULD HESITATE TO ACCEPT A GROUP WHICH HAD A HISTORY OF ARMING THEMSELVES AND FORMING A GOVERNMENT WITHIN A GOVERNMENT.
- (II) QUESTIONED ABOUT THE ISRAELI INVASION OF THE LEBANON, SHULTZ SAID THAT THE PRESIDENT HAD MADE CLEAR U.S. OPPOSITION TO THE MOVEMENT OF ISRAELI FORCES ACROSS THE BORDER AND THE U.S. HAD VOTED IN THE SECURITY COUNCIL FOR A CEASEFIRE AND WITHDRAWAL. HE HOPED THAT AN ISRAELI MOVE INTO WEST BEIRUT COULD BE AVOIDED. IN THOSE CIRCUMSTANCES CIVILIAN CASUALTIES WOULD MOUNT RAPIDLY. HE HIMSELF SHARED THE WIDESPREAD REACTION TO THE EXTENT OF CIVILIAN CASUALTIES IN THE FIGHTING.

(B) ARAB/ISRAEL

- (I) SHULTZ SAID THAT EVENTS IN LEBANON MIGHT CREATE A CHANCE OF ACHIEVING A BREAKTHROUGH IN OTHER ASPECTS OF THE MIDDLE EAST. HE DID NOT HAVE A PLAN IN MIND BUT PALESTINIAN REPRESENTATIVES MUST BE PART OF ANY NEGOTIATIONS. ASKED ABOUT TALKING TO THE PLO, SHULTZ SAID THAT IF THE PLO ACKNOWLEDGED ISRAEL'S RIGHT TO EXIST AND ACCEPTED U N SECURITY COUNCIL RESOLUTIONS 242 AND 348 THEN, AS THE PRESIDENT HAD INDICATED, THIS WOULD BE SOMETHING TO CONSIDER. ASKED WHETHER THE PLO WAS A TERRORIST GROUP, SHULTZ SAID THEY HAD MANY DIMENSIONS, INCLUDING TERRORISM. IF THE PLO COULD QUOTE GET OFF THIS GUERRILLA KICK UNQUOTE THEY WERE UNDOUBTEDLY A VOICE OF THE PALESTINIAN PEOPLE. HE HATED TO SEE PEOPLE WHO HAD BEEN ELECTED AS MAYORS REMOVED FROM OFFICE BECAUSE THOSE PEOPLE HAD SOME LEGITIMACY AND THEIR REMOVAL DID NOT SOLVE ANYTHING. ASKED ABOUT THE PRESIDENT'S VIEW THAT ISRAELI SETTLEMENTS WERE LEGAL, SHULTZ SAID THAT THE PRESIDENT HAD DESCRIBED THEM AS QUOTE NOT ILLEGAL UNQUOTE. HE HIMSELF COULD NOT FEEL THAT THESE SETTLEMENTS WERE CONSTRUCTIVE IN THE CONTEXT OF EFFORTS TO BRING ABOUT SOME SENSE OF IDENTITY FOR THE PALESTINIANS. NOR WAS IT SIMPLY A QUESTION OF ISRAELI SETTLERS. 30 PERCENT OF THE LAND AND 40 PERCENT OF THE WATER IN THOSE AREAS WAS USED BY THE ISRAELIS. IF THE PROBLEMS OF THE PALESTINIANS WERE GOING TO BE MET THEN THE WEST BANK AND GAZA MUST BE QUOTE PART OF THE TERRAIN UNQUOTE.

(11) ASKED WHETHER HE WOULD ADOPT A TOUGH POLICY TOWARDS ISRAEL, SHULTZ SAID THAT HIS EFFORTS MUST REFLECT THE SUPPORT THEY COULD COMMAND IN CONGRESS AND IN THE COUNTRY. HE WAS VERY CONSCIOUS OF THE DESIRE FOR PEACE IN BOTH ISRAEL AND IN THE ARAB WORLD AND DESCRIBED WITH EVIDENT EMOTION SOME OF HIS OWN PERSONAL EXPERIENCES EG THE DEATH IN THE 1967 WAR OF A JEWISH STUDENT WHO HAD BEEN ONE OF HIS MOST BRILLIANT PUPILS AT THE UNIVERSITY OF CHICAGO AND THE UPSURGE OF OPTIMISM FOLLOWING SADAT'S FIRST VISIT TO JERUSALEM. HE REGRETTED THAT ISRAEL HAD CROSSED THE LEBANESE BORDER BECAUSE THAT ACTION HAD PUT PAID TO THE CEASEFIRE WHICH HAD MORE OR LESS HELD UNTIL THEN. BUT THE ISSUE WHICH UNDERLAY CURRENT EVENTS WAS A TOTAL LACK OF PROGRESS IN DOING ANYTHING ABOUT THE PALESTINIAN PROBLEM. LAST YEAR'S CEASEFIRE HAD PROVIDED AN OPPORTUNITY TO COME TO GRIPS WITH PALESTINIAN ISSUES, BUT NO ONE HAD GOT TO GRIPS WITH THEM. IN THE MIDDLE OF THE CURRENT APPALLING BLOODSHED IT WAS NOW NECESSARY TO ASK IN WHAT WAYS PROGRESS COULD BE MADE. A GREATER SENSE OF URGENCY WAS NEEDED. HE REPEATED THAT THE PALESTINIANS SHOULD HAVE THEIR REPRESENTATIVES IN THE NEGOTIATIONS. ASKED WHETHER THE PLO MUST RECOGNISE ISRAEL AS A CONDITION OF PARTICIPATION IN THE NEGOTIATIONS, SHOULD THE PALESTINIANS CHOOSE THEM AS THEIR REPRESENTATIVES, SHULTZ SAID THAT THE U.S. SHOULD STICK TO ITS CURRENT POSITION ON THE ISSUE. THE VERY ACT OF NEGOTIATING IMPLIED SOME KIND OF RECOGNITION OF THE PEOPLE YOU WERE NEGOTIATING WITH.

(C) IRAN/IRAQ

AN IRANIAN INVASION OF IRAQ WOULD BE JUST AS UNFORTUNATE AS THE IRAQI INVASION OF IRAN HAD BEEN. THE U.S. MUST CONTINUE TO STAND FOR THE SANCTITY OF INTERNATIONAL BORDERS. HE RECOGNISED THE GREAT CONCERN OF THE COUNTRIES OF THE GULF OVER WHAT WAS HAPPENING. THIS WAS A REMINDER THAT THERE WERE MANY GRAVE PROBLEMS IN THE MIDDLE EAST OTHER THAN THE ARAB/ISRAEL DISPUTE. THE U.S. DID NOT HAVE DIPLOMATIC RELATIONS WITH IRAQ OR IRAN AND WAS NOT THEREFORE VERY INFLUENTIAL WITH EITHER COUNTRY.

(D) BECHTEL CORPORATION

(1) IF CONFIRMED AS SECRETARY OF STATE SHULTZ SAID HE WOULD HAVE NO RELATIONSHIP WITH BECHTEL AND WOULD EXECUTE A STATEMENT REMOVING HIMSELF FROM CONSIDERATION OF ANY PARTICULAR MATTER INVOLVING BECHTEL WHICH MIGHT COME UP DURING HIS TERM OF OFFICE. HE CONFIRMED THAT IN 1975 BECHTEL HAD BEEN THE SUBJECT OF AN ANTI-TRUST SUIT BECAUSE THE LANGUAGE OF SOME OF ITS CONTRACTS REFLECTED THE TERMS OF THE ARAB BOYCOTT, AS DID THE CONTRACTS OF A NUMBER OF OTHER U.S. FIRMS AT THAT TIME. BECHTEL HAD ALTERED ITS PROCEDURES AND SUBSEQUENTLY, AS A LEADING MEMBER OF THE BUSINESS ROUND TABLE, HAD NEGOTIATED, WITH A GROUP OF AMERICAN JEWISH ORGANISATIONS, LANGUAGE WHICH HAD SUBSEQUENTLY BEEN INCORPORATED IN THE EXPORT ADMINISTRATION ACT. BECHTEL HAD FULLY COMPLIED WITH THAT ACT AND WOULD CONTINUE TO DO SO.

(11) SHULTZ ACKNOWLEDGED THAT BECHTEL HAD WRITTEN TO ALL MEMBERS OF CONGRESS IN 1981 SUPPORTING THE PRESIDENT'S DECISION TO SELL AWACS AIRCRAFT TO SAUDI ARABIA. IT WAS RIGHT AND PROPER TO HAVE DONE SO AND HE HIMSELF HAD MADE NO SECRET OF HIS SUPPORT FOR THE ADMINISTRATION'S POLICY. HE DENIED THAT BECHTEL HAD APPLIED STRONG-ARM TACTICS TO PERSUADE MEMBERS OF CONGRESS TO SUPPORT THE AWACS DEAL.

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GRS 330
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FM WASHINGTON 010201Z JUL 82
TO PRIORITY FCO
TELEGRAM NUMBER 2306 OF 1 JULY
INFO BONN, PARIS, UKMIS NEW YORK, MOSCOW, UKDEL NATO.

PRESIDENT REAGAN'S PRESS CONFERENCE : HAIG'S RESIGNATION

IN A NATIONALLY TELEVISED PRESS CONFERENCE ON 30 JUNE, PRESIDENT REAGAN WAS REPEATEDLY ASKED ABOUT SECRETARY HAIG'S RESIGNATION BUT REFUSED TO GO INTO THE REASONS BEHIND IT ON THE GROUNDS THAT THERE WAS NO MORE THAT THE AMERICAN PEOPLE NEEDED TO KNOW. HE DENIED THAT HAIG HAD OFFERED TO RESIGN SEVERAL TIMES OVER THE PAST EIGHTEEN MONTHS: HAIG HAD SUBMITTED HIS RESIGNATION ONCE AND HE, AS PRESIDENT, HAD ACCEPTED IT WITH GREAT SORROW. HE HAD PROFITED FROM HAIG'S WISDOM AND SUGGESTIONS BUT FOREIGN POLICY WAS MADE IN THE OVAL OFFICE AND THERE WOULD BE NO CHANGE OF DIRECTION. THE NATION WAS NOW FORTUNATE TO HAVE IN SHULTZ A MAN OF GREAT EXPERIENCE AND UNQUESTIONED INTEGRITY.

2. PRESIDENT REAGAN DENIED THAT AN ISSUE BEHIND THE RESIGNATION WAS MIXED SIGNALS OVER THE MIDDLE EAST OR THAT THE STATE DEPARTMENT HAD BEEN BLINDSIDED BY THE DECISION ON THE SOVIET GAS PIPELINE. THERE HAD BEEN DIFFERENCES OF OPINION ON THE PIPELINE AND HE HAD COME DOWN ON THE SIDE OF PRINCIPLE. IT WOULD REMAIN HIS PRACTICE TO ALLOW ALL SIDES OF AN ARGUMENT TO BE AIRED AND THEN TO TAKE HIS DECISION.

3. ASKED ABOUT CONFUSION IN FOREIGN POLICY, THE PRESIDENT SAID THAT, WHILE THERE HAD BEEN DISAPPOINTMENTS, HE HAD CORRECTED THE DISARRAY HE HAD INHERITED. HE LISTED AS U S FOREIGN POLICY ACHIEVEMENTS THE RETURN OF SINAI; THE MAINTENANCE FOR 11 MONTHS OF THE CEASEFIRE IN THE LEBANON; THE NAMIBIAN NEGOTIATIONS WHICH HAD BEEN DEAD IN THE WATER BUT NOW LOOKED VERY HOPEFUL, AND GREATER ALLIED CONFIDENCE IN THE UNITED STATES. HE ALSO REFERRED TO THE SUPERHUMAN JOB DONE BY HAIG IN TRYING TO PREVENT BLOODSHED IN THE SOUTH ATLANTIC. THE U S HAD BEEN UNABLE TO PERSUADE THE AGGRESSIVE PARTY TO LEAVE THE FALKLANDS BUT IT HAD BEEN RIGHT TO MAKE THE EFFORT. LATER, REAGAN SAID IT WAS NOT AMERICAS PLACE TO INTERVENE IN THE FALKLANDS ISSUE BUT THE U S REMAINED READY TO HELP IF ASKED.

HENDERSON
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 FM FCO 281200Z JUNE 82
 TO IMMEDIATE WASHINGTON
 TELEGRAM NUMBER 1240 OF 28 JUNE

MY TELNO 1239 ⁽⁷⁾ MESSAGE FROM THE PRIME MINISTER TO MR ALEXANDER HAIG

1. I SHOULD BE GRATEFUL IF YOU WOULD PASS THE FOLLOWING MESSAGE FROM THE PRIME MINISTER TO MR HAIG.

2. BEGINS

DEAR MR HAIG

THANK YOU FOR YOUR MESSAGE. I WAS VERY SAD TO HEAR OF YOUR RESIGNATION. ALL HERE GREATLY APPRECIATE THE HELP AND SUPPORT YOU HAVE GIVEN US OVER THE LAST FEW DIFFICULT MONTHS. NOR SHALL WE FORGET YOUR IMPORTANT CONTRIBUTION, OVER A LONG PERIOD AND IN MORE THAN ONE CAPACITY, TO THE STRENGTH AND VIGOUR OF THE WESTERN ALLIANCE.

MY VERY BEST WISHES FOR THE FUTURE. PLEASE COME AND SEE US WHENEVER YOU ARE IN LONDON. YOU WILL ALWAYS FIND A WARM WELCOME.

YOURS SINCERELY
 MARGARET THATCHER

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FM WASHINGTON 282245Z JUN 82

TO IMMEDIATE FCO

TELEGRAM NUMBER 2273 OF 28 JUNE

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

HAIG'S RESIGNATION

1. YOU MAY WISH TO HAVE SOME THOUGHTS ON THE IMPLICATIONS OF HAIG'S DEPARTURE FOR THE FUNCTIONING OF THE GOVERNMENT HERE. IT IS OBVIOUSLY TOO EARLY YET TO ASSESS THE IMPACT ON POLICY. SHULTZ WILL NOT BE CONFIRMED BY THE SENATE UNTIL MID-JULY. HAIG IS STILL CONDUCTING CURRENT BUSINESS; AND THERE WILL THEREFORE BE AN UNEASY TRANSITION. THE FOLLOWING ARE MY PRELIMINARY COMMENTS.

2. THE VERY SERIOUS DIFFICULTIES INHERENT IN THE SYSTEM HERE OF ACHIEVING A PROPERLY COORDINATED FOREIGN POLICY AND A COHERENT EXPLANATION OF IT HAVE BEEN COMPOUNDED OVER THE PAST EIGHTEEN MONTHS BY THE WELL PUBLICISED CLASHES BETWEEN HAIG, WEINBERGER AND THE QUOTE TROIKA UNQUOTE IN THE WHITE HOUSE. THE DIFFERENCES BETWEEN HAIG AND WEINBERGER HAVE BEEN BOTH PERSONAL (WITH NEITHER HESITATING TO STRAY INTO THE OTHER'S DOMAIN) AND ABOUT POLICY (TECHNOLOGY TRANSFERS, THE GAS PIPELINE, ARMS CONTROL AND THE BEST WAY OF DEALING WITH THE ALLIES). THE DIFFERENCES BETWEEN HAIG AND THE WHITE HOUSE STAFF HAVE UNTIL RECENTLY BEEN MAINLY FROM CONFLICTS OF PERSONALITY: FROM HIS INSISTENCE UPON BEING THE VICAR OF US FOREIGN POLICY, FROM HIS GREAT SENSITIVITY ABOUT OTHERS ENCROACHING ON HIS TURF, FROM HIS IMPETUOUSNESS AND HIS AMOUR PROPRE; AND, ON THE SIDE OF THE WHITE HOUSE, THEIR RESENTMENT THAT HE WAS DENYING THEM THEIR PROPER ROLE IN FOREIGN POLICY, THAT HE MADE MOUNTAINOUS PERSONAL ROWS OVER WHAT SHOULD HAVE BEEN MOLEHILLS, AND THAT HIS WAY OF DOING THINGS WAS UNNECESSARILY ABRASIVE, NOT TO THE OUTSIDE WORLD BUT TO HIS OWN COLLEAGUES IN THE US GOVERNMENT. IN RECENT WEEKS, HOWEVER, DIFFERENCES OPENED UP OVER THE PIPELINE (WITH CLARK AND OTHERS CONSIDERING THAT THE PRESIDENT HAD NOT GOT ENOUGH PROGRESS AT VERSAILLES ON CREDITS FOR THE SOVIET UNION TO JUSTIFY HOLDING OFF FURTHER UNILATERAL US ACTION); AND WITH BUSH, CLARK AND OTHERS CONSIDERING THAT HAIG WAS GOING TOO FAR IN UNCONDITIONAL SUPPORT FOR ISRAELI OBJECTIVES IN THE LEBANON (AND HAD BEEN MISLED BY THE ISRAELIS AS TO WHAT THEIR REAL OBJECTIVES WERE).

3. I BELIEVE THAT SHULTZ'S ARRIVAL AND HIS PERSONALITY WILL HAVE A CALMING INFLUENCE ON THE PERSONALITY CONFLICTS WITHIN THE SYSTEM. HIS BACKGROUND AS A LONGTIME ASSOCIATE OF THE PRESIDENT IN CALIFORNIA, AND HIS CONNECTIONS WITH THE OTHER CALIFORNIANS IN THE ADMINISTRATION, INCLUDING WEINBERGER, WILL HELP. ALTHOUGH THE TWO WERE VERY CLOSELY ASSOCIATED IN BECHTEL AND HAD A GOOD WORKING RELATIONSHIP, HOWEVER, I AM NOT SURE THAT THERE IS A PARTICULARLY CLOSE PERSONAL RAPPORT BETWEEN SHULTZ AND WEINBERGER AND I WOULD EXPECT SIMILAR INSTITUTIONAL DIFFERENCES TO OPEN UP BETWEEN THEM

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/ON

ON POLICY EG OVER ARMS CONTROL. SHULTZ IS A CONSERVATIVE FIGURE WHO FAVOURS A FIRM LINE IN DEALING WITH THE SOVIET UNION BUT, AS I HAVE REPORTED, HE HAD IN THE PAST EXPRESSED DOUBTS ABOUT THE UTILITY OF TRYING TO SWITCH TRADE ON AND OFF (ALBEIT IN THE CONTEXT OF THE CARTER GRAIN EMBARGO). I SEE LITTLE PROSPECT, HOWEVER, OF HIS BEING ABLE TO SECURE, OR OF HIS SEEKING, A REVERSAL OF THE PRESIDENT'S RECENT DECISION ON THE PIPELINE.

4. WHEN HE WAS THOUGHT OF AS A POSSIBLE CHOICE FOR REAGAN'S SECRETARY OF STATE BEFORE THE ELECTION SHULTZ COMMENTED THAT THE ONLY AREA IN WHICH HE THOUGHT THAT THERE WAS ANY DIFFERENCE OF VIEW ON POLICY BETWEEN HIM AND THE PRESIDENT WAS IN RELATION TO THE MIDDLE EAST. HE WAS CRITICAL OF VERY PRO-ISRAELI SPEECH PRESIDENT REAGAN MADE TO B'NAI B'RITH DURING THE ELECTION CAMPAIGN. SHULTZ'S ATTITUDE TO ISRAEL WILL BE RAISED BY A NUMBER OF SENATORS DURING THE CONFIRMATION HEARINGS. IN THIS AREA I WOULD EXPECT SHULTZ TO BE FAR MORE PRIVATELY CRITICAL OF BEGIN AND SCEPTICAL OF ISRAELI INTENTIONS AND CERTAINLY WITHOUT HAIG'S EMOTIONAL SUPPORT FOR ISRAEL (AND THAT MANIFESTED BY SOME OF HAIG'S ASSOCIATES LIKE WOLFOWITZ, BURT AND CO). WITH WEINBERGER ALSO PUSHING IN THAT DIRECTION, THE ISRAELIS CAN EXPECT TO HEAR A SOMEWHAT FIRMER VOICE FROM WASHINGTON. I WOULD CAUTION, HOWEVER, AGAINST EXPECTING ANY MAJOR SHIFT IN US POLICY IN THIS AREA, BECAUSE OF THE ALL IMPORTANT DOMESTIC CONSIDERATIONS. AT THE DEMOCRATIC MID-TERM MEETING WHICH HAS JUST TAKEN PLACE IN PHILADELPHIA, THERE WAS GENERAL AGREEMENT THAT THERE SHOULD BE NO CRITICISM OF ISRAEL'S ACTIONS IN LEBANON. KENNEDY AND MONDALE CONTINUE TO VIE WITH EACH OTHER IN UNCONDITIONAL SUPPORT FOR ISRAEL. ALTHOUGH MANY LEADING MEMBERS OF THE JEWISH COMMUNITY HERE ARE INCREASINGLY WORRIED ABOUT ISRAEL'S REPUTATION IN THIS COUNTRY AND THERE HAS BEEN SOME CHANGE IN THE MOOD IN CONGRESS, I REMAIN OF THE VIEW THAT THIS AND, I SUSPECT, ANY US ADMINISTRATION WILL CONTINUE TO FIND THE GREATEST DIFFICULTY IN NERVING ITSELF TO PUT REAL PRESSURE ON ISRAEL.

5. THERE IS ONE FURTHER IMPORTANT POINT. WITH HAIG'S RESIGNATION, SHULTZ WILL BE IN A STRONG POSITION. THE WHITE HOUSE ENTOURAGE WILL HAVE TO WORK WITH HIM. THE PRESIDENT IS NOT GOING TO BE ABLE TO AFFORD TO LOSE ANOTHER SECRETARY OF STATE. IF, AS I EXPECT, SHULTZ'S GENERAL LINE IS TO PURSUE HAIG'S POLICIES ON ALMOST ALL ISSUES, BUT TO MODERATE THE EXTREME PRO-ISRAELI BIAS OF HAIG AND TO DO ALL THIS IN A SOMEWHAT MORE CALMER AND MORE AUTHORITATIVE MANNER, HE COULD PROVE HIMSELF A MORE EFFECTIVE SECRETARY OF STATE THAN HIS PREDECESSOR. ALTHOUGH AS A RESULT OF THE CLOSE COLLABORATION BETWEEN US OVER ARMS CONTROL AND OTHER ISSUES WITHIN THE ALLIANCE AND, PARTICULARLY, AS A RESULT OF ALL OUR CONTACTS OVER THE FALKLANDS, HAIG HAD BEEN DRAWN INTO A PARTICULARLY CLOSE WORKING RELATIONSHIP WITH US, I HAVE A HIGH REGARD FOR SHULTZ AND DO NOT THINK THE CHANGE NEED BE REGARDED AS IN ANY WAY ONE FOR THE WORSE IN TERMS OF EUROPEAN INTERESTS GENERALLY.

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U.S.

10 DOWNING STREET

28 June 1982

MESSAGE FROM THE PRIME MINISTER TO
MR. ALEXANDER HAIG

With reference to Stuart Laing's letter to John Coles of 26 June, I should be grateful if you would arrange for the attached message to be forwarded to Mr. Haig from the Prime Minister.

✓ 15/1

8

Miss C. Stevens
Duty Clerk

John Holmes, Esq.,
Foreign and Commonwealth Office.

Dear Mr. Haig,

Thank you for your message. I was very sad to hear of your resignation. All here greatly appreciate the help and support you have given us over the last few difficult months. Nor shall we forget your important contribution, over a long period and in more than one capacity, to the strength and vigour of the Western alliance.

My very best wishes for the future. Please come and see us whenever you are in London. You will always find a warm welcome.

Yours sincerely,

Margaret Thatcher



Foreign and Commonwealth Office

London SW1A 2AH

26 June 1982

A J Coles Esq
PS/No 10 Downing Street

Dear John,

MESSAGE TO MR HAIG

The Duty Clerk asked for a draft reply to Mr Haig's message of 26 June. I attach a suggested text, with which Brian Fall is content.

Yours ever,
James Laing

J S Laing
Resident Clerk

cc
PS
Sir J Bullard
Mr Marshall, NAD

Enc

DRAFT: minute/letter/teleletter/despach/note

TYPE: Draft/Final 1+

FROM: Prime Minister

Reference

DEPARTMENT: TEL. NO:

SECURITY CLASSIFICATION

TO: Mr Alexander Haig

Your Reference

- Top Secret
- Secret
- Confidential
- Restricted
- Unclassified

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SUBJECT:

.....In Confidence

Dear Mr Haig

CAVEAT.....

Thank you
~~Many thanks~~ for your thoughtful message of ~~26 June~~.
very
 I was *L*sad to hear of your resignation. All here greatly appreciate the help and support you have given us over the last few difficult months. Nor shall we forget your important contribution, over a long period and in more than one capacity, to the strength and vigour of the Western alliance. *N.P.* ~~I should like to take this opportunity of sending you my~~ *very* best wishes for the future.

Please come and see us whenever you are
 Yours sincerely *Shandon You will always find a warm welcome.*

Margaret Thatcher

Enclosures—flag(s).....

MF

PRIME MINISTER

The FCO have been asked to provide a draft reply for you to send to Mr. Haig in response to his letter to you.

They have also been asked to submit a draft of a message for you to send to Mr. Shultz.

William

p.p. Duty Clerk

26 June 1982

C O P Y

June 26, 1982

Dear Prime Minister:

As I depart from Government service, I want to express to you my appreciation for your constant defense of Western interests and for your strong support for the closest possible ties between our two nations during the past year and a half. It contributed greatly to the ability of the West positively to influence events in this troubled world. It has been a great honor for me to have worked with you and your Government. I know that George Shultz looks forward to the same privilege.

Sincerely,

/s/

Alexander Haig

*refaxed to chequers
26/6/82*



EMBASSY OF THE UNITED STATES OF AMERICA
LONDON

June 26, 1982

Dear John:

I have been asked to deliver the enclosed message to the Prime Minister from Secretary Haig. The message was received at the Embassy this morning.

Sincerely,

Edward Streator

Edward J. Streator
Charge d'Affaires, a.i.

Enclosure - as stated

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Mr. A.J. Coles,
Private Secretary to the Prime Minister,
10 Downing Street,
London, SW1.

June 26, 1982

Dear Prime Minister:

As I depart from Government service, I want to express to you my appreciation for your constant defense of Western interests and for your strong support for the closest possible ties between our two nations during the past year and a half. It contributed greatly to the ability of the West positively to influence events in this troubled world. It has been a great honor for me to have worked with you and your Government. I know that George Shultz looks forward to the same privilege.

Sincerely,

/s/

Alexander M. Haig

IMMEDIATE

No. 10 JS

refaxed to chesport

26/6/82

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FM WASHINGTON 260133Z JUN 82
TO IMMEDIATE F C O
TELEGRAM NO 2259 OF 25 JUNE
INFO IMMEDIATE UKMIS NEW YORK, PARIS, BONN, MOSCOW, UKDEL NATO,
UKREP BRUSSELS
INFO SAVING CG'S IN USA

MY TELNO 2257: HAIG'S RESIGNATION

1. HAIG READ OUT TO THE PRESS HIS LETTER OF RESIGNATION. HE REFUSED TO ELABORATE ON IT. HE PAID TRIBUTE TO THE STATE DEPARTMENT AND TO HIS SUCCESSOR WHOM HE DESCRIBED AS AN OLD FRIEND AND A MAN OF EXPERIENCE, PROFESSIONALISM AND INTEGRITY.

2. FOLLOWING IS TEXT. QUOTE.

DEAR MR PRESIDENT, YOUR ACCESSION TO OFFICE ON JANUARY 20 1981 BROUGHT AN OPPORTUNITY FOR A NEW AND FORWARD-LOOKING FOREIGN POLICY, RESTING ON THE CORNERSTONES OF STRENGTH AND COMPASSION. I BELIEVE THAT WE SHARED A VIEW OF AMERICA'S ROLE IN THE WORLD AS THE LEADER OF FREE MEN AND AN INSPIRATION FOR ALL. WE AGREED THAT CONSISTENCY, CLARITY AND STEADINESS OF PURPOSE WERE ESSENTIAL TO SUCCESS. IT WAS IN THIS SPIRIT THAT I UNDERTOOK TO SERVE YOU AS SECRETARY OF STATE. IN RECENT MONTHS, IT HAS BECOME CLEAR TO ME THAT THE FOREIGN POLICY ON WHICH WE EMBARKED TOGETHER WAS SHIFTING FROM THAT CAREFUL COURSE WHICH WE LAID OUT. UNDER THESE CIRCUMSTANCES, I FEEL IT NECESSARY TO REQUEST THAT YOU ACCEPT MY RESIGNATION. I SHALL ALWAYS TREASURE THE CONFIDENCE WHICH YOU REPOSED IN ME. IT HAS BEEN A GREAT HONOUR TO SERVE IN YOUR ADMINISTRATION AND I WISH YOU EVERY SUCCESS IN THE FUTURE. SINCERELY, UNQUOTE.

HENDERSON

FCO/WHITEHALL

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DESKBY 260730Z

FM WASHINGTON 260130Z JUN 82

TO IMMEDIATE F C O

TELEGRAM NO 2258 OF 25 JUNE

INFO IMMEDIATE UKMIS NEW YORK, PARIS, BONN, MOSCOW, UKDEL NATO,

UKREP BRUSSELS

INFO SAVING CG'S IN USA

MIPT: HAIG'S RESIGNATION: SHULTZ'S APPOINTMENT

1. GEORGE SHULTZ, AS YOU KNOW, IS FIRST CLASS, A MAN STEADY IN DECISION AND MEASURED IN LANGUAGE. HE WANTED THE JOB ORIGINALLY BUT IT WAS NOT THOUGHT POSSIBLE FOR THE TWO TOP MEMBERS OF BECHTEL (WEINBERGER IS THE OTHER) TO LEAVE THE CORPORATION AND JOIN THE GOVERNMENT AT THE SAME TIME. WEINBERGER BECAME SECRETARY OF DEFENSE BECAUSE HAIG, A MILITARY MAN, COULD NOT TAKE ON THAT POST. ALTHOUGH SHULTZ WAS LEFT OUT HE HAS REMAINED CLOSE TO REAGAN. HE WILL BE IN A VERY STRONG POSITION.

2. IT IS WORTH BEARING IN MIND AT THE OUTSET THAT SHULTZ DOES NOT HAVE A PRO-ZIONIST REPUTATION; ON THE CONTRARY, IT WAS SUGGESTED AT THE TIME OF THE FORMATION OF REAGAN'S GOVERNMENT THAT ONE OF THE REASONS WHY HE DID NOT HAVE A PLACE WAS BECAUSE HE WAS NOT THOUGHT TO BE SUFFICIENTLY SYMPATHETIC TO ISRAEL. BECHTEL HAVE MAJOR INTERESTS IN THE ARAB WORLD, PARTICULARLY SAUDI ARABIA.

3. IT IS NOT CLEAR WHEN SHULTZ WILL TAKE OVER. HAIG INDICATED TODAY THAT HE WILL STAY ON AS LONG AS NECESSARY FOR A HAND-OVER PERIOD AND SHULTZ WILL HAVE TO BE CONFIRMED BY THE SENATE BEFORE HE CAN BE SWORN IN. HE SHOULD BE ABLE TO CARRY OUT MANY OF HIS DUTIES MEANWHILE, THOUGH THE SENATE WILL TAKE UMBRAGE IF HE ACTS AS THOUGH HE WERE TAKING THEIR APPROVAL FOR GRANTED.

4. UNLESS YOU HAVE MADE CONTACT WITH SHULTZ IN LONDON (HE IS AT THE STAFFORD HOTEL), YOU WILL PROBABLY WISH TO SEND HIM A MESSAGE. THE FOLLOWING IS A BRIEF BIOGRAPHY:

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5. BORN IN NEW YORK CITY IN 1920. EDUCATED AT PRINCETON UNIVERSITY (BA ECONOMICS 1942) AND MASSACHUSETTS INSTITUTE OF TECHNOLOGY (PHD INDUSTRIAL ECONOMICS 1949). HE SERVED IN THE US MARINE CORPS DURING THE WAR. FROM 1948-57 HE WAS ON THE FACULTY OF THE MASSACHUSETTS INSTITUTE OF TECHNOLOGY, DURING WHICH HE TOOK A YEAR'S LEAVE TO WORK AS SENIOR STAFF ECONOMIST FOR THE PRESIDENT'S COUNCIL OF ECONOMIC ADVISERS. FROM 1957-68 SHULTZ WAS FIRST PROFESSOR OF INDUSTRIAL RELATIONS AND THEN DEAN OF THE UNIVERSITY OF CHICAGO BUSINESS SCHOOL. IN 1969, PRESIDENT NIXON APPOINTED HIM SECRETARY OF LABOUR; IN 1970, DIRECTOR OF THE OFFICE OF MANAGEMENT AND BUDGET; IN 1972, SECRETARY OF THE TREASURY. IN DECEMBER 1972 HIS POSITION AS OVERALL SUPREMO ON ECONOMIC POLICY WAS FORMALLY RECOGNISED BY HIS ADDITIONAL APPOINTMENT AS PRESIDENTIAL ASSISTANT AND CHAIRMAN OF THE NEWLY-CREATED COUNCIL ON ECONOMIC POLICY TO COORDINATE ALL DOMESTIC AND INTERNATIONAL ECONOMIC POLICIES. WITH PRESIDENT NIXON'S RESIGNATION IN 1973, SHULTZ LEFT GOVERNMENT TO BECOME EXECUTIVE VICE-PRESIDENT AND SUBSEQUENTLY PRESIDENT OF THE BECHTEL GROUP.

6. SHULTZ WAS PRESIDENT REAGAN'S FIRST CHOICE FOR SECRETARY OF STATE IN 1980. HE WAS PASSED OVER FOR THE JOB FOR THE REASONS GIVEN ABOVE BUT REMAINED CLOSE TO REAGAN WHO APPOINTED HIM CHAIRMAN OF THE ECONOMIC ADVISORY BOARD, A COMMITTEE OF PROMINENT REPUBLICANS THAT ADVISES THE PRESIDENT ON ECONOMIC ISSUES. SHULTZ SHOWED HIMSELF TO BE SYMPATHETIC BOTH TO SUPPLY-SIDE AND MONETARIST POLICIES AND URGED THE PRESIDENT TO STICK TO HIS PROGRAMME AND TO AVOID SHORT-TERM PUMP PRIMING DESIGNED TO OVERCOME THE ADVERSE EFFECTS OF THE RECESSION.

7. SHULTZ IS MARRIED WITH FIVE CHILDREN.

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TO IMMEDIATE F C O

TELEGRAM NO 2257 OF 25 JUNE

INFO IMMEDIATE UKMIS NEW YORK, PARIS, BONN, MOSCOW, UKDEL NATO,

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HAIG'S RESIGNATION

1. I HAVE SPOKEN TO HAIG, WHO SAID HE DID NOT WANT TO SINGLE OUT ANY PARTICULAR REASONS FOR THE RESIGNATION. HE PROFOUNDLY DISAGREED WITH VARIOUS DIRECTIONS THAT WERE BEING GIVEN TO US FOREIGN POLICY AND HE DID NOT "LIKE THE SMELL". OBVIOUSLY WHAT HE WAS REFERRING TO WAS THE EXACERBATION OF RELATIONS BETWEEN HIMSELF AND THE WHITE HOUSE. REAGAN'S ENTOURAGE HAVE FROM THE DAY HAIG WAS APPOINTED CONTESTED HIS ATTEMPT TO HAVE COMPLETE DIRECTION OF US FOREIGN POLICY AND BE THE SOLE SPOKESMAN. THIS HAS NOW COME TO A HEAD.

2. HAIG TOLD ME THAT THE PROBLEM HAS BEEN AGGRAVATED BY PERSONALITIES BECAUSE SOME OF THE PEOPLE IN THE WHITE HOUSE, WHOM HE DESCRIBED TO ME AS "SICK CHARACTERS", HAVE BEEN CONVINCED THAT HE WAS INTENDING TO RUN FOR HIGH OFFICE. THIS WAS BOUND TO GET WORSE AS THE PRESIDENTIAL ELECTION APPROACHED. EVEN THIS WEEK RUMOURS ON THIS SCORE HAD BEEN SPREAD BY THE WHITE HOUSE. THERE WAS NO BASIS WHATEVER FOR THESE RUMOURS ABOUT HIS POLITICAL INTENTIONS. HAVING SAID THIS, HAIG TOLD ME, IN ANSWER TO MY QUESTION, THAT HE WOULD NOT BE RETURNING TO UNITED TECHNOLOGIES, THOUGH HE KNEW THAT HIS PLACE WAS STILL VACANT THERE. HIS INTENTION WAS TO "DO A BIT OF SPEAKING".

3. HE SAID THAT OVER THE FALKLANDS CRISIS IN WHICH WE HAD BOTH BEEN SO CLOSELY INVOLVED HE HAD HAD GREAT DIFFICULTY OVER POLICY. HE WAS NOT SPECIFIC BUT I AM SURE THAT WHAT HE WAS GETTING AT WAS THE INFLUENCE EXERTED ON THE PRESIDENT BY JEANE KIRKPATRICK, CLARK AND OTHER PRO-LATINOS.

4. AS REGARDS CLARK, IT MIGHT HAVE BEEN THOUGHT THAT HIS APPOINTMENT TO THE WHITE HOUSE AFTER SERVING UNDER HAIG AT THE STATE DEPARTMENT WOULD HAVE LED TO AN IMPROVEMENT IN RELATIONS. BUT THIS HAS NOT HAPPENED. CLARK HAS NOT REPRESENTED HAIG'S POINT OF VIEW TO THE PRESIDENT; BUT NOR HAS HE, I KNOW IN HAIG'S VIEW AND THAT OF OTHERS AT THE TOP OF THE STATE DEPARTMENT, BEEN ABLE TO FORMULATE COHERENT POLICIES OF HIS OWN. HIS IGNORANCE OF FOREIGN POLICY BRINGS HIM INTO CONTINUING CONTEMPT WITH THE STATE DEPARTMENT.

5. HAIG SAID THAT HE IS CONFIDENT THAT HIS DEPARTURE WILL NOT JEOPARDISE US INTERESTS OR THOSE OF HER ALLIES. IF HE HAD HAD FEARS

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/ ABOUT THIS,

ABOUT THIS, HE WOULD NOT HAVE GONE. BUT SHULTZ WAS FIRST RATE. THE WHITE HOUSE WOULD BE LESS INCLINED TO GIVE SHULTZ THE TROUBLE THE HAD METED OUT TO HIM.

6. I HAVE HAD A SEPARATE TALK WITH EAGLEBURGER, WHO WAS RATHER MORE EXPLICIT. HE REFERRED TO A "SUBTERRANEAN GOVERNMENT", BY WHICH HE MEANT THE WHITE HOUSE AND SOME IN THE PENTAGON, WHO SENT MESSAGES TO OTHER COUNTRIES THAT HAD THE EFFECT OF UNDERMINING US POLICY. EAGLEBURGER MENTIONED IN PARTICULAR THE FALKLAND ISLANDS ISSUE, ON WHICH HE SAID THAT THERE HAD BEEN COVERT POLICIES AND MESSAGES WHICH HAD "ENCOURAGED ARGENTINIAN RECALCITRANCE".

7. EAGLEBURGER ALSO SPOKE OF THE CURRENT CRISIS IN THE MIDDLE EAST, ON WHICH "PEOPLE WERE DELIBERATELY SENDING MESSAGES ENCOURAGING THE PLO TO HANG TOUGH". EAGLEBURGER SAID THAT HE KNEW I WOULD NOT AT ALL AGREE WITH HIS VIEW, AND BY THAT I THINK HE ALSO MEANT HAIG'S VIEW, BUT THE US OBJECTIVE NOW SHOULD BE "TO GET THE PLO OUT OF BEIRUT"; NOTHING SHOULD BE DONE TO ENCOURAGE THEM TO STAY THERE BUT THIS WAS JUST WHAT SOME ELEMENTS IN THE US GOVERNMENT WERE DOING.

8. EAGLEBURGER ALSO MENTIONED THE PERSONAL FRICTION THAT HAD ARISEN BETWEEN HAIG AND THE WHITE HOUSE ENTOURAGE ON THE EUROPEAN TRIP. WHAT EXASPERATED HAIG, AND FOR THAT MATTER EAGLEBURGER, WAS THE LACK OF EXPERIENCE AND NUANCE AND THE PREVALENCE OF IGNORANCE AMONG THOSE OUTSIDE THE STATE DEPARTMENT WHO WERE TRYING TO INFLUENCE US FOREIGN POLICY. HE REPEATED THAT "CLARK IS PART OF THE PROBLEM".

9. EAGLEBURGER ALSO SAID THAT THE DIFFERENCES OVER THE PIPELINE HAD BEEN CONTRIBUTORY; THE CRUCIAL MEETING OF THE NSC LAST WEEK HAD BEEN HELD WHILE HAIG WAS GRAPPLING WITH GROMYKO IN NEW YORK. THIS HAD RANKLED WITH HIM, AS HE EARLIER TOLD ME HIMSELF.

10. IN HAIG'S PRESS STATEMENT, THE TEXT OF WHICH IS GIVEN IN MY SECOND IFT, THERE IS LITTLE LIGHT ON THE REASONS FOR HIS RESIGNATION. THIS DOES NOT MEAN THAT THERE WILL NOT BE THE MOST EXTENSIVE SPECULATION ABOUT IT. NO DOUBT THE WHITE HOUSE WILL BE DOING THEIR BEST TO DENIGRATE HAIG.

11. IT SAYS SOMETHING ABOUT THE NATURE OF THE GOVERNMENT HERE AT THE PRESENT TIME THAT THE PRESIDENT HIMSELF, HAVING ANNOUNCED HAIG'S RESIGNATION, GAVE NO EXPLANATION FOR IT AND THEN WENT OFF BY HELICOPTER TO CAMP DAVID FOR THE WEEKEND. THERE HAVE BEEN PICTURES OF HIM ON TELEVISION WAVING GOODBYE AS HE BOARDS THE HELICOPTER, TO BE FOLLOWED BY PICTURES OF BEIRUT UNDER BOMBARDMENT FROM AIR AND ARTILLERY.

12. WHAT IT BOILS DOWN TO, I THINK, IS THAT THE RESIGNATION HAS COME ABOUT AS A RESULT OF AN ACCUMULATION OF DIFFERENCES ON POLICY AND A CONFLICT OF TEMPERAMENT. HAIG, AS YOU KNOW, IS IMPETUOUS AND

HAS NO SENSE OF TIMING. HE IS ALSO COMBATIVE SO FAR AS CONCERNS HIS OWN TURF, TO USE ONE OF HIS FAVOURITE WORDS. IT IS INHERENT IN THE SYSTEM THAT THERE WILL BE A CONFLICT BETWEEN THE WHITE HOUSE AND THE STATE DEPARTMENT ON THE CONDUCT OF FOREIGN POLICY UNLESS THE SECRETARY OF STATE IS EXCEPTIONALLY COMPLIANT AND PASSIVE. EVEN IF, AS IS THE SITUATION AT THE MOMENT, THE PRESIDENT HIMSELF DOES NOT SEEK TO DIRECT THE DAY-TO-DAY DIRECTION OF POLICY, THOSE AROUND HIM WILL BELIEVE THAT THE US CONSTITUTION DOES NOT PERMIT THE PRESIDENCY TO ABDICATE ITS RESPONSIBILITY. HAIG CAME TO THE STATE DEPARTMENT WITH AN ENORMOUS REPUTATION, THE IDOL OF THE REPUBLICAN PARTY. THE REASONS FOR HIS CONSTANT CLASHES SINCE THEN, THE DECLINE IN HIS ESTEEM, AND HIS INABILITY TO FIND A WAY THROUGH THE INHERENT CONTRADICTIONS OF THE WASHINGTON SYSTEM, RESULT NOT FROM INABILITY OR LACK OF INTEGRITY BUT FROM HIS PARTICULAR ABRASIVE AND VARIABLE PERSONALITY. THE ODD THING IS THAT HE HAS IN PRACTICE ACHIEVED A LARGE PROPORTION OF HIS OBJECTIVES ON POLICY BUT THIS HAS NOT PREVENTED A SENSE OF TENSION AND FRUSTRATION AND A BELIEF ON HIS PART THAT HE IS IN SOME WAY BEING UNDERMINED AND CIRCUMVENTED.

13. I DO NOT KNOW WHETHER YOU HAVE ALREADY COMMUNICATED WITH HAIG. BUT I SUGGEST YOU MIGHT SEND HIM A MESSAGE ON THE FOLLOWING LINES.

BEGINS:

MAY I EXPRESS TO YOU MY DEEP PERSONAL REGRETS THAT I SHALL NO LONGER HAVE YOU AS A COLLEAGUE IN THE FOREIGN SECRETARIES CLUB. FROM THE TIME YOU CAME TO LONDON AT THE BEGINNING OF APRIL WHEN I HAD JUST TAKEN OVER MY POST, I HAVE BEEN PERSONALLY AWARE OF THE ENERGY, CONVICTION AND INTEGRITY WHICH YOU HAVE BROUGHT TO THE CONDUCT OF US FOREIGN POLICY. THESE WERE THE QUALITIES THAT YOU BROUGHT TO BEAR UPON THE FALKLAND ISLANDS CRISIS; AND I SHOULD LIKE TO TAKE THE OPPORTUNITY OF LEAVING YOU IN NO DOUBT OF OUR GRATITUDE TO YOU FOR THE GREAT EFFORTS YOU MADE DURING THOSE DIFFICULT WEEKS. YOUR DECISION OF 30 APRIL WAS NOT AN EASY ONE AND I ASSURE YOU THAT THE US SUPPORT ENUNCIATED IN IT WAS OF THE GREATEST HELP TO OUR CAUSE AND I BELIEVE TO THE ANGLO/AMERICAN PARTNERSHIP.
ENDS.

14. PLEASE SEE MIFT ABOUT GEORGE SHULTZ.

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FM WASHINGTON 030020Z MAR
TO ROUTINE FCO
TELEGRAM NUMBER 694 OF 2 MARCH 1982.

USA

U.S. UNIONS ACCEPTANCE OF WAGE FREEZE

1. IN WHAT COULD BE IMPORTANT PRECEDENTS, THE FORD MOTOR COMPANY AND THE ROAD HAULAGE INDUSTRY HAVE AGREED WITH THEIR UNIONS NEW CONTRACTS WHICH FREEZE BASIC WAGES. THE FORD AGREEMENT IS EXPECTED TO SAVE THE COMPANY DOLLARS 1 BILLION OVER THE 31 MONTHS OF THE CONTRACT. THE SAVINGS WILL BE MADE THROUGH A FREEZE ON WAGES AND DEFERRING COST OF LIVING INCREASES. THE WORKERS ALSO AGREED TO GIVE UP NINE DAYS OF HOLIDAYS. IN RETURN THE COMPANY WILL NOT PROPOSE TO CLOSE ANY NEW FACTORIES. LONG SERVICE EMPLOYEES ARE GIVEN A GUARANTEE OF HALF PAY IF LAID OFF. AT TWO PLANTS THE COMPANY WILL INTRODUCE A GUARANTEED LIFETIME EMPLOYMENT.

2. MORE THAN 600,000 FORD WORKERS ARE NOW UNEMPLOYED AND CURRENT SALES ARE DOWN TO 1947 LEVELS. IN THIS DEFENSIVE POSITION THE UNION HAD TO CONCEDE A NUMBER OF SIGNIFICANT CONDITIONS. THE UNION ORIGINALLY SAW THE NINE PERSONAL HOLIDAYS AS THE FIRST STAGE TOWARD THE FOUR DAY WEEK. THE UNION HAS ALSO GIVEN UP THE INCREMENTS FOR ITS RETIRED MEMBERS WHICH IT SAW AS A STEP TOWARDS INDEXED PENSIONS. WHILST THE AGREEMENT WILL GO SOME WAY TOWARDS REDUCING PRODUCTION COSTS, SOME ANALYSTS HAVE QUESTIONED THE GENERAL FOCUS OF ATTENTION IN THE NEGOTIATIONS. PRODUCTIVITY IS A CENTRAL PROBLEM FOR THE U S CAR INDUSTRY BUT THE AGREEMENT DOES NOT DEAL WITH THE ISSUE. THERE ARE GROUNDS FOR BELIEVING THAT THE AGREEMENT COULD RESTRICT THE COMPANY'S FLEXIBILITY AND MAY INHIBIT PRODUCTIVITY IMPROVEMENT.

3 WITH THE FORD NEGOTIATIONS SETTLED, THE UNION IS NOW TURNING ITS ATTENTION TO AMERICAN MOTORS AND GM. BOTH COMPANIES HAVE ASKED FOR THEIR CONTRACTS TO BE REOPENED.

4. THE ROAD HAULAGE INDUSTRY TODAY SETTLED ITS NEW NATIONAL AGREEMENT WITH THE TEAMSTERS UNION. THE CONTRACT HOLDS BASIC WAGES AT THE PRESENT LEVEL FOR 37 MONTHS. COST OF LIVING INCREASES WILL BE PAID ANNUALLY BUT ANY NEEDED SUPPLEMENTS TO THE PENSION AND HEALTH FUNDS WILL BE TAKEN FROM THE COST OF LIVING ADJUSTMENTS.

5. WITH THE MOST POWERFUL U S UNION AND ITS MOST INNOVATIVE ONE BOTH MAKING CONCESSIONS THE TREND COULD PROVE SIGNIFICANT.

6. PLEASE PASS COPY TO CAPELLA, DEPARTMENT OF EMPLOYMENT.

HENDERSON

[THIS TELEGRAM WAS NOT ADVANCED]
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FM WASHINGTON 082352Z FEB 82

TO ROUTINE F C O

TELEGRAM NUMBER 408 OF 8 FEBRUARY 1982

INFO NIO LONDON, NIO BELFAST, BIS NEW YORK,

INFO SAVING ALL C G'S IN USA.

MS

ANNUAL STATE DEPARTMENT REPORT ON HUMAN RIGHTS.

1. CONGRESS HAS JUST PUBLISHED THE REPORT ON HUMAN RIGHTS WHICH THE STATE DEPARTMENT ARE REQUIRED BY LAW TO SUBMIT EACH YEAR. THE REPORT COVERS ALL MEMBER STATES OF THE UNITED NATIONS AND DOES NOT DIFFER SIGNIFICANTLY IN TONE OR CONTENT FROM REPORTS SUBMITTED UNDER THE CARTER ADMINISTRATION. THERE IS, HOWEVER, SLIGHTLY LESS EMPHASIS THAN BEFORE ON ECONOMIC AND SOCIAL MATTERS AND INCREASED STRESS ON ABUSES IN THE SOVIET UNION AND OTHER WARSAW PACT COUNTRIES. THE REPORT BENDS OVER BACKWARDS TO GIVE AMERICA'S FRIENDS THE BENEFIT OF THE DOUBT, NOTING A DOWNWARD TREND IN POLITICAL VIOLENCE IN SAN SALVADOR IN 1981; SOME MODIFICATION OF APARTHEID IN SOUTH AFRICA AND MERELY REFERRING TO THE CONSEQUENCES OF THE COMPLEX HUMAN RIGHTS SITUATION IN ISRAELI-OCCUPIED TERRITORIES.

2. AS IN PREVIOUS YEARS, THE CHAPTER ON THE UNITED KINGDOM CONCENTRATES HEAVILY ON NORTHERN IRELAND WITH A GOOD DEAL OF HISTORICAL BACKGROUND ON THE EUROPEAN COURT CASE, THE BENNETT REPORT ETC. THE REPORT CONTAINS A HELPFUL STATISTICAL TABLE SHOWING THE DOWNWARD TREND IN COMPLAINTS OF MISTREATMENT IN NORTHERN IRELAND.

3. IN REPORTING THE 1980 AND 1981 HUNGER STRIKES THE STATE DEPARTMENT DESCRIBE VERY FULLY THE FINDINGS OF THE EUROPEAN COMMISSION ON HUMAN RIGHTS, OPPOSITION BY THE CHURCHES TO THE FIRST HUNGER STRIKE AND HMG'S WILLINGNESS TO LIBERALISE PRISON RULES, WHILE REFUSING TO ACCEDE TO THE FULL DEMANDS DURING THE SECOND STRIKE. THE ONLY UNHELPFUL REFERENCES ON NORTHERN IRELAND ARE:

(A) THE STATEMENT IN A PASSAGE ON DENIAL OF FAIR PUBLIC TRIAL THAT IN DIPLOCK COURTS "THE NORMAL RULES OF EVIDENCE HAVE BEEN ALTERED TO ALLOW FOR THE ADMISSIBILITY OF STATEMENTS MADE BY THE ACCUSED WHILE IN CUSTODY" THOUGH THE REPORT ADDS A PROVISIO ABOUT THE USE OF STATEMENTS MADE AS A RESULT OF TORTURE ETC.

(B) A LENGTHY PASSAGE, IMPLICITLY CRITICAL ABOUT THE POWERS GRANTED TO THE HOME SECRETARY AND THE SECRETARY OF STATE FOR NORTHERN IRELAND TO MAKE EXCLUSION ORDERS. THE REPORT NOTES THAT THIS POWER HAS BEEN REFERRED TO BY MANY AS A SYSTEM OF INTERNAL EXILE.

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4. IN DEALING WITH THE UNITED KINGDOM AS A WHOLE THE REPORT REFERS TO LAST YEAR'S URBAN RIOTS AND DRAWS ATTENTION TO POLICING METHODS AND POLICE RELATIONSHIPS WITH YOUNG PEOPLE AND MINORITIES AS A PARTICULAR AREA OF TENSION AND CONTROVERSY. TURNING TO THE ECONOMY, THE REPORT NOTES THAT MORE NEEDS TO BE DONE TO ELIMINATE THE ECONOMIC AND SOCIAL DISADVANTAGES SUFFERED BY MEMBERS OF ETHNIC MINORITIES. IT REFERS TO SPECIAL EFFORTS WHICH HAVE BEEN MADE TO SUBSIDISE THE NORTHERN IRELAND ECONOMY BUT NOTES THAT THE BURDEN OF UNEMPLOYMENT FALLS DISPROPORTIONATELY ON THE CATHOLIC POPULATION ALTHOUGH IT ADDS THAT THE REASONS FOR THIS ARE COMPLEX AND ARE NOT EXPLAINED SOLELY ON THE GROUNDS OF RELIGIOUS DISCRIMINATION. THE REPORT NOTES THAT THE BRITISH TRADE UNION MOVEMENT IS ONE OF THE MOST ACTIVE IN THE WORLD AND THAT THE RIGHT TO STRIKE IS VIRTUALLY UNRESTRICTED.

5. THE STATE DEPARTMENT'S FINDINGS ON THE UK HAVE ATTRACTED NO PUBLICITY. INsofar AS THIS YEAR'S ENTRY ON THE UK DIFFERS FROM LAST YEAR'S IT DOES SO MAINLY AS A RESULT OF EVENTS (LIKE THE HUNGER STRIKE IN NORTHERN IRELAND) OR THE INJUNCTION GIVEN TO THE STATE DEPARTMENT DRAFTERS NOT TO REPRODUCE LAST YEAR'S REPORT UNCHANGED. IN GENERAL, THE REPORT GIVES A FAVOURABLE ACCOUNT OF THE UNITED KINGDOM WHOSE LEGAL TRADITION AND RESPECT FOR HUMAN RIGHTS ARE, IT SAYS, WIDELY AND JUSTIFIABLY ADMIRER.

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TO ROUTINE F C O

TELEGRAM NUMBER 283 OF 29 JANUARY

INFO SAVING UKDEL OECD, PARIS, ROME, BONN, TOKYO, OTTAWA, CG'S USA.

MY TELNO 235: PRESIDENT REAGAN'S STATE OF THE UNION ADDRESS

1. IF PRESIDENT REAGAN'S AIM IN ANNOUNCING A MASSIVE TRANSFER OF RESPONSIBILITY FOR SOCIAL PROGRAMMES FROM THE FEDERAL TO THE STATE LEVEL WAS TO SOW CONFUSION, TO FOCUS ATTENTION ON THE STATE OF THE UNION A DECADE HENCE AND TO DIVERT ATTENTION FROM THE ECONOMIC PROBLEMS OF THE COMING MONTHS, HE HAS HAD SOME SUCCESS.

2. THE PRESIDENT PROPOSED A SWAP; THE FEDERAL GOVERNMENT WOULD ASSUME RESPONSIBILITY FOR MEDICAL AID FOR THE POOR (MEDICAID) AND, IN RETURN, THE STATES WOULD ASSUME FULL RESPONSIBILITY FOR AID TO FAMILIES WITH DEPENDENT CHILDREN (AFDC) WHICH IS NOW A FEDERAL/STATE PROGRAMME, AS WELL AS FOR THE FOOD STAMP PROGRAMME WHICH IS NOW FEDERALLY FUNDED. IN THE ENSUING WELTER OF REACTION AND COMMENT IT HAS BEEN EASY TO OVERLOOK THE FACT THAT THE PROGRAMME WOULD NOT EVEN BEGIN TO BE IMPLEMENTED UNTIL FY 1984 (STARTING IN OCTOBER 1983) AND WOULD ONLY BE FULLY OPERATIONAL TEN YERS FROM NOW. THE PRESIDENT LEFT MANY QUESTIONS UNANSWERED, NOTABLY (A) WHY HE CHOSE TO MAKE THIS APPARENTLY ARBITRARY SWAP BETWEEN FEDERAL AND STATE RESPONSIBILITIES (NEW YORK TIMES: WHERE IS THE LOGIC IN FEDERALISING ONE POVERTY PROGRAM BUT TURNING BACK OTHERS. DO POOR PEOPLE GET EQUALLY SICK IN DIFFERENT PLACES BUT UNEQUALLY HUNGRY?) AND (B) WHAT MEANS, IF ANY, WILL BE FOUND AT THE END OF THE TRANSITION PERIOD TO ENSURE THAT STATES WITH A POOR RECORD IN SOCIAL WELFARE IMPOSE SUFFICIENT TAXES TO GUARANTEE A MINIMUM OF CARE FOR THEIR CITIZENS; I.E. HOW DOES THE ADMINISTRATION ENSURE THE PROVISION OF A SAFETY NET. SOME COMMENTATORS SEE A RISK THAT A LARGE BURDEN WILL FALL ON THOSE STATES WITH A GOOD RECORD (MANY OF THEM THE INCREASINGLY IMPOVERISHED INDUSTRIAL STATES OF THE NORTHEAST) RATHER THAN ON THE WEALTHIER SUNBELT STATES WITH A RELATIVELY POOR RECORD. IF INEQUALITY OF BENEFITS ENCOURAGES A POPULATION SHIFT, PARTICULARLY AMONG MINORITIES, TO THOSE STATES WHICH OFFER GREATER BENEFITS, THE PROBELMS OF THE NORTHEAST AND OF THE NORTH/SOUTH DIVIDE COULD SIMPLY BE EXACERBATED.

3. REACTION TO THE PRESIDENT'S ANNOUNCEMENT HAS TENDED TO DIVIDE ON PARTY LINES THOUGH THE DEMOCRATS ARE BEING GUARDED IN THEIR CRITICISMS NOT LEAST BECAUSE THE IDEA OF RETURNING RESPONSIBILITY OF THEIR OWN AFFAIRS TO THE INDIVIDUAL STATES HAS CONSIDERABLE APPEAL IN A COUNTRY WHERE THE ENCROACHMENT OF FEDERAL BUREAUCRACY HAS BECOME INCREASINGLY UNPOPULAR.

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4. IT IS IRONICAL THAT THE PRESIDENT'S ANNOUNCEMENT SHOULD COINCIDE WITH THE CENTENARY OF THE BIRTH OF ROOSEVELT WHICH IS BEING CELEBRATED THIS WEEKEND. WHILE CONSERVATIVE REPUBLICANS DRAW SATISFACTION FROM WHAT THEY SEE AS THE FINAL DEATH KNELL OF THE NEW DEAL (WILLIAM SAFIRE: THE REAL REAGAN IS IN THE WHITE HOUSE, ALL'S RIGHT WING WITH THE WORLD), THE REPUBLICANS ARE LESS HAPPY WITH THE PRESIDENT'S FAILURE TO DEAL WITH THE RECORD BUDGET DEFICIT, NOW EXPECTED TO BE DOLLARS 96 BILLION IN FY82. IN A SPEECH THAT WAS OTHERWISE PUNCTUATED BY APPLAUSE AND DELIVERED WITH HIS CUSTOMARY SKILL, MR REAGAN WAS GREETED WITH ALMOST DERISIVE LAUGHTER AT THAT PASSAGE IN HIS ADDRESS WHICH FORECAST THAT THIS YEAR'S DEFICIT QUOTE WILL EXCEED OUR EARLIER EXPECTATIONS UNQUOTE. NOR HAS THE PRESIDENT'S BOLD APPROACH TO FEDERAL FUNDING (DUBBED BY THE PRESS THE NEW FEDERALISM IN A SOMEWHAT UNHAPPY REMINDER OF AN ILL-FATED NIXON SCHEME) SUCCEEDED IN DIVERTING ATTENTION FROM THE BUDGET DEFICIT EVEN AMONG MEMBERS OF THE PRESIDENT'S OWN PARTY. MANY OF THE CONGRESSIONAL REPUBLICAN LEADERSHIP SUCH AS BAKER (SENATE MAJORITY LEADER), DOMENICI (BUDGET COMMITTEE CHAIRMAN) AND DOLE (FINANCE COMMITTEE CHAIRMAN) HAVE MADE CLEAR THAT, WHILE THE NEW FEDERALISM MAY HAVE ATTRACTIONS TWO OR THREE YEARS HENCE, NOTHING IS OF GREATER CONCERN THAN THE ADMINISTRATION'S IMMEDIATE ECONOMIC DIFFICULTIES. WHILE CONSERVATIVE REPUBLICANS LIKE JACK KEMP, SOMEWHAT UNCONVINCINGLY, PLAY DOWN THE ADVERSE EFFECTS OF THE DEFICIT, THE DEMOCRATS ARE EQUALLY ENJOYING THEIR ROLE AS ADVOCATES OF BALANCED BUDGETS AND ARE PORTRAYING THEIR OPPONENTS AS THE LAST OF THE BIG SPENDERS.

5. BEHIND THIS POLITICAL POINT - SCORING LIES A REAL FEAR AMONG REPUBLICAN LEADERSHIP THAT THE PRESIDENT CAN NO LONGER COUNT ON THE SUPPORT OF DEFECTING DEMOCRATS OR ON THE UNITY OF HIS OWN PARTY TO CARRY THROUGH HIS PROGRAMME UNCHALLENGED. EVEN MR REAGAN'S FRIENDS ACKNOWLEDGE THAT HE HAS SIMPLY DUCKED THE DEFICIT ISSUE. AS THE NEW YORK TIMES PUT IT: QUOTE HE MAY BE PASSING THE BUCK, HOPING TO MAKE CONGRESS TAKE THE BLAME FOR RAISING TAXES. HE MAY SEE THE DEFICIT AS A LEVER TO FORCE MORE REDUCTIONS IN FEDERAL SPENDING, OR HE MAY SIMPLY PREFER TO WAIT UNTIL AFTER THE 1982 ELECTIONS BEFORE SWALLOWING THE PAINFUL MEDICINE OF TAX INCREASES. MORE LIKELY, THE PRESIDENT IS GAMBLING ON A SUPPLY SIDE SAVINGS BOOM. UNQUOTE. THE UNCOMFORTABLE FACT IS THAT QUITE APART FROM GROWING SCEPTICISM IN THE PRESS, FEWER AND FEWER OF MR REAGAN'S OWN SUPPORTERS IN CONGRESS BELIEVE THAT SUCH A BOOM IS IMMINENT. WHILE THEY WILL NOT WANT TO CARRY THE CAN FOR THE PRESIDENT BY TAKING THE UNPOPULAR STEPS THAT HE HAS DECLINED TO TAKE, THERE WILL UNDOUBTEDLY BE CONGRESSIONAL ATTEMPTS TO REDUCE THE DEFICIT AS CONGRESSIONAL COMMITTEES GO THROUGH THE BUDGET LINE BY LINE AFTER ITS PRESENTATION ON 8 FEBRUARY. ALL THE OBVIOUS CHOICES (TAX INCREASES; REDUCTIONS IN PUBLIC SPENDING; DEFERRAL OF PROMISED TAX CUTS; REDUCTIONS IN DEFENCE SPENDING) ARE UNATTRACTIVE TO REPUBLICANS IN THIS ELECTION YEAR. BUT THE DEFICIT, THE PROSPECT OF HIGH INTEREST RATES AND THE SCOURGE OF RISING UNEMPLOYMENT, MAY LOOK WORSE.



USA
Prime Minister
Sir N. Henderson's account
of Reagan's first year is
worth reading, if you have
time.
A.S.C.
h-a.
ML-1/2.

CONFIDENTIAL AND ECLIPSE

UNITED STATES ANNUAL REVIEW 1981

SUMMARY

1. President Reagan has made a difference. He has stamped his personality on the country and on the year, The American people like him, but he has not yet been truly tested and doubts about him and his policies are likely to grow (Paragraphs 1-3).
2. The Administration have not found it as easy as expected to fulfil their commitment to get government off the backs of the people. Committed to massive increases in defence spending; blocked by Congress from making cuts in social security and unable, because of recession and tight monetary policies, to reap the benefits of their tax cuts, they are now faced with increased unemployment and a record budget deficit. David Stockman is going out of fashion just as Maynard Keynes is coming back in. (Paragraphs 4-9).
3. There are signs of disarray in the Administration even among the White House troika. Weinberger is secure; Haig more so than before. In the Cabinet, Regan (Treasury) and Baldrige (Commerce) have made their mark. Congress has produced few stars. The Democratic Party has not yet found an obvious Presidential challenger for 1984. (Paragraphs 10-13).
4. The Administration's main preoccupations in foreign policy have been:

/(a)

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- (a) to stand up to the Russians and resist the spread of Communism. This aim and the resumed dialogue with the USSR have been tested by Poland;
- (b) a more realistic approach to the third world; though they are stuck for a policy for Central America. Castro and Qadhafi are major obsessions;
- (c) to strengthen alliances. Though alliance consultation, at which they have worked hard, has shown up differences, Haig and Reagan have tried to damp them down.

The neutralist movement has provoked doubts about the US/Europe relationship. One should never forget the importance of America's Far Eastern connections. US isolationism is not on the horizon but Europe should not take America for granted.

(Paragraphs 14-21).

5. The third world is seen in East/West terms on the basis that any enemy of Communism (however disreputable) is a friend of ours. The Middle East has provoked a tug of war between America's traditional ties with Israel, severely tested, and her interest in a better relationship with the Arabs. The risks of trying to have it both ways are evident in policy towards China. Anything to do with the United Nations, including the North/South Dialogue and UNLOSC, is suspect.

(Paragraphs 22-25).

6. Relations with the United Kingdom have been close.

(Paragraph 26).

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BRITISH EMBASSY,

WASHINGTON, D C.

1 January 1982

The Hon The Lord Carrington
etc etc etc
Foreign & Commonwealth Office
London SW1

My Lord

ANNUAL REVIEW 1981

1. Whatever the limitations on the ability of present day democratic leaders to influence events as they would wish there is no doubt that President Reagan has made a difference: peoples' lives in the USA have been affected by his Presidency. Asked after nearly a year in office what accomplishment he was proudest of he replied, "All over America there is a different attitude", by which he meant, in his own words, that despite the recession "there is confidence that things are going to get better", a spirit, so he believed, that was not present a year or two ago, any more than was a widespread sense of patriotism that he also now thinks is prevalent.

2. I think there is truth in these claims and that it is his personality that has stamped the year. Not that he is dominating, as FDR was, or romantic like JFK, or bludgeoning in the manner of LBJ, to mention three of his predecessors this century who have made a considerable personal impact. But he has changed the political climate of this country which not every President has done, and certainly not within the space of a year. Not, I wish

/to suggest

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to suggest, that he will necessarily continue to have this influence, or that he can go on enjoying the present absence of any organised opposition or coherent criticism.

3. It is the nature of Reagan's character and leadership that create doubts about the durability of his sway, at any rate in my mind. You may be getting a little bored with hearing of Reagan's qualities as communicator and charmer, and his capacity to represent and reflect the feelings and responses of the ordinary decent citizen. Nevertheless these are the attributes that got him to the White House and continue to bring him popularity. The Americans respond to them more readily than they do to the mastery of detail or moralising self-doubt that characterised his predecessor. They also like his toughness (sacking air controllers; AWACS; vetoing the budget) though it must be recognised that he has not so far had to undergo any very severe test. But one cannot but ask whether behind it all there is enough of substance to justify all the communication, and whether there is sufficient dynamism, as well as charm, to hold the nation in thrall. I am not sure that there is, and I am certain that scepticism and hostility are bound to grow; they are in any event the concomitant of democratic government and they will be compounded by emerging criticisms of Reagan's ideology and by the growing impact of his economic programme on the welfare of the less-favoured.

4. Getting government off the backs of the people was the

/principal



principal promise of Reagan's Inaugural speech. But he has not done much to implement it, even in the tax area (see below). The Departments of Energy and Education, though under sentence of death from the start, have not yet been killed off. Vice-President Bush was given the task, in between funerals, of supervising de-regulation, one of the new Government's commitments; but the results of this have not been conspicuous. The dilemma is that in a thrusting free-enterprise society the government alone can provide much-needed protection for some sections of the population - and they know this.

5. There was something debonair at first about the Administration's approach to social problems. Surely, they seemed to be saying to themselves, the cutting of school lunch programmes, student loans, Medicare and Medicaid and the provision of relatively less tax relief to the poor than to the rich, would come to be seen by the victims as ultimately for their benefit, just as in the world of sport the fox must come to appreciate the advantages bestowed by the huntsmen. So it came as a shock to him when the Congress rejected Reagan's proposal for reducing Social Security, a "misunderstanding", so he has described it, that was the "one disappointment in what otherwise has been a most successful year". The US Government has discovered, as have other democratic governments, how difficult it is to cut what the public, whom they hope will vote for them again, have come to expect as their due. Yet if you do not attack these entitlements which represent such

/a large



a large proportion of budgetary outlays, how can an adequate dent be made in government expenditure? By way of comparison, whereas in the UK the cost of social welfare as a proportion of government expenditure has remained fairly steady over the last twenty years, in the US these entitlements have almost doubled their share of the budget and now amount to over 47%. There has been another expenditure problem, that of defence. The Government have abided by their commitment to increase defence expenditure, and it is worth recalling by way of comparison that the additional expenditure in this area for 1982 will amount to the equivalent of almost the total UK defence programme for the year. As a proportion of total federal expenditure the amount to be devoted to defence in 1982 is 28%.

6. On the revenue side the Government were committed to reducing taxation and this they have done (even though inflation will make the reduction more apparent than real). Nor have they so far sought to compensate by an increase in indirect tax. Underlying this is the Panglossian assumption that such a reduction will create a growth in economic activity so as to off-set the loss in revenue caused by the cut in the tax rate. Whether or not this trickle-down effect can in theory bring about a surge in the economy in anything but a longish time-scale, it is certain that the tight monetary creed in which the Government believe and of which Volcker has been the high and unrelenting priest at the Federal Reserve Board has thwarted it this year. After a short rise in the

/first quarter



first quarter when GNP increased by 2% the economy has remained flat or in decline ever since. The motorcar and building industries, which are particularly sensitive to high interest rates, have been and remain hard-pressed. Most forecasters expect little or no GNP growth in 1982, though the prognosis is favourable for the second half.

7. Inflation has come down to about 10% compared with 13% at the turn of the year. But unemployment rose during the year to over 8% with the rate for blacks, other minorities and teenagers very much higher, raising the spectre of a recurrence of social tensions (for black teenagers the rate is over 40%).

8. The President has spent a great deal of time trying to cajole Congressmen into supporting his plans for reducing expenditure and taxation. He has not been totally successful and, given the inherent conflict between the White House and Capitol Hill, it is difficult to see how he could have been. The effects of this and of the recession are that the Government do not look like succeeding in one of their main aims which was to reduce the Government deficit. They had hoped to bring this down from about \$45 billion in 1982 to zero in 1984; but the deficit now appears to be going from over \$100 billion in 1982 (a record) to a still higher figure in 1984. This forecast has dismayed Wall Street.

9. Some officials are already suggesting that government deficits may not be all that wrong in a time of recession;

/so John Maynard



so John Maynard Keynes, who began the year at the bottom of the class, looks like reaching Remove by the end. An opposite trajectory has been followed by the Director of the Budget, David Stockman, who started out as the Reaganauts' prize pupil but who has been given a hiding by the President - "a visit to the woodshed" as it is described in Mid-West jargon - for having revealed to the Atlantic Monthly flaws in the Government's economic programme.

10. This Stockman episode has been one of several signs of disarray in Reagan's team. He had tried to introduce a system akin to Cabinet Government, but it is difficult to recognise it under that name, and such a system is not, in my view, compatible with Presidential government (at any rate on either the US or French model). At the centre of affairs has been the strong triumvirate of Meese, Baker and Deaver, who have exercised powerful and harmonious influence; a team that has, however, just scored an own goal by the announcement that Deaver will be leaving the White House in a year's time as he cannot afford to live on the salary of \$60,000 a year; not, it is admitted, a convincing mark of dedication to the public service. I do not attach much importance to Dick Allen's reduced role in the National Security Council or to his abilities, whatever his involvement with the Japanese.

11. Of the Ministers, you know about Haig's roller-coaster performance. He is looking at ease with himself now and his

/position



position seems more secured. Reflecting on his first year in office I cannot escape the conclusion that whatever his problems, whether of status or of character, he has made a distinct mark, much more so, for example, than did either of his two predecessors. People may laugh about him, or criticise him, but he does not induce indifference. Weinberger is close to the President, and at the Pentagon has shown authority without brashness. He is dogmatic but not polemical. He is his own master however much he may have been set around at the Pentagon by people not of his choosing. Given his background and interests he seems miscast, and he may even think so himself.

13. Regan has enhanced his reputation at the Treasury, almost pari passu with the decline of Stockman's. He has been helped by following in Miller's footsteps. I think his financial colleagues round the world find it possible to have discussions and do business with him on a basis of rationality. He has clear-cut opinions, not to say prejudices, as was apparent to me when he told me à propos Keynes that it must not be forgotten that he was a homosexual. As Secretary of Commerce Baldrige has cut a dash, helped by his much publicised hobby as a cowboy with a gift for lassoing. He has a big department and seems to handle it with aplomb. All in all I do not think that the Cabinet have either shone or shown themselves dimmer than their predecessors. But I should add in parenthesis that, whatever their qualities as individuals, Cabinet Ministers are not necessarily the main wielders of power, which here is so diffused that Congressmen may on occasion excel them in influence.

/13.



13. No single Congressman has, however, captured the limelight. Senator Baker strikes me as the star performer of the year and Senator Percy the dunce. The Democrats have been disorganised. No obvious candidate has emerged for their Presidential nomination in 1984 either on the Hill or on the other main recruiting ground for the Presidency, the State Governorships. In the Republican camp, Reagan himself continues to keep his options open for a second term.

14. When they took office, Reagan and his Ministers emphasised how domestic affairs, particularly the rejuvenation of the economy and the control of inflation, would have priority over foreign affairs. But the President has been drawn increasingly into international questions; and at the end of the year the crackdown in Poland and relations with Israel must be his most time-consuming preoccupations.

15. Reagan's overall foreign policy aim was to restore America's prestige and self-confidence. The specific new directions were defined as:

- a) Standing up to the Russians and resisting the spread of Communism on the basis of increased military strength and plain-speaking.
- b) Renewal of traditional alliances.
- c) A more "realistic" approach to the Third World.

16. I believe that the Administration thought that they were doing well in the first of these objectives until the crackdown in Poland. They set much store by the firmer foundations that

/would



would be provided by the increased defence effort; and a great deal of attention was devoted to the Rapid Deployment Force. They have resumed a dialogue with the Soviets (Haig has said that he has seen Dobrynin over 20 times); and they have embarked on INF talks and committed themselves to resuming SALT (now START).

17. Haig made El Salvador his first test of resistance to Cuban/Soviet subversion, and he continues to fulminate against Castro and the Sandinistas in Nicaragua. Fearful of the rot spreading further, the Administration nevertheless do not give the impression of having a clear idea of what to do about it.

18. The other obsession has been Qadhafi who epitomises everything that the Administration most dislikes. International terrorist par excellence and gold medalist of subversion, he is seen by Washington as the abettor of Soviet influence in the area and the would-be assassin of American leaders.

19. The new Administration have made much of the importance that they attach to proper consultation with their European allies. There have undoubtedly been lapses, eg over announcements about the lifting of the grain embargo and the neutron bomb, but they have tried hard to live up to their intentions, and in the latter months of the year, particularly over arms control and Namibia, consultation has been intense. There are differences over Poland, stemming from the pressures the Administration are under to take action, even if this means moving ahead of their Allies. There is always a readiness amongst the press in Washington, and perhaps in Europe, to play up differences of

/policy



policy between the two sides of the Atlantic, and I think that Reagan and Haig have done their best to damp this down, with the important exception of matters concerning Israel.

20. The Administration took care to differentiate between public anti-nuclear and anti-American demonstrations in Europe and the attitudes of Governments there, but the adverse effect of the former on US opinion should not be discounted, however much they may have been encouraged by US rhetoric. I do not think that there is a widespread view here in favour of US withdrawal from Europe because of European attitudes. But the events of the year have demonstrated once again how imprudent it would be for Europe to take American backing for granted.

21. As Europeans we tend to neglect the importance to the Americans of their Far Eastern connections. These are particularly pertinent in an Administration full of Californians. No opportunity is missed by the current American leaders of referring to their alliance with Japan. Seen from here, the latter tend to produce too many cars and not enough battleships.

22. The Reagan people have seen Third World issues largely in East/West terms: the root of many Third World problems lies not necessarily in economic deprivation, social conditions, tribalism or racism, but in the machinations of the Soviets or their surrogates. This partly explains the Government's tendency to provide military support all round the world as the first step in resistance to the spread of Communism (note the lifting of

/a number



a number of previous arms embargoes). It is also relevant to what appears to many other Western countries as a lack of scruple about the type of regime they are prepared to support. It is a readiness to resist Communism that counts. Personally I believe that anti-Communism has been a greater motive force in US foreign policy since the Second World War than any positive ideal including humanitarianism, though many Americans will argue that the two are inseparable.

23. In the Middle East Reagan and Haig, despite their Zionism, have recognised the need to fortify relations with other Arab countries, principally Saudi Arabia, for reasons both of anti-Soviet strategy and oil. This led to the AWACS deal and later to the condemnation of the Israeli raid on Iraq and of the annexation of the Golan Heights. The new Administration also embraced the Camp David process despite its parentage. The Israelis insisted on this and the Americans saw no alternative despite disenchantment with Begin, given Sadat's, and later Mubarak's, eagerness to carry on with it and thereby secure Israel's withdrawal from Sinai. Initial flirtation with the Fahd plan and subsequent relief when it was ditched at Fez illustrate the tug-of-war in US policy.

24. The attitude of the new Administration towards China exemplifies the influences that are at work on the present Administration. Republicans tend to be pro-Taiwan, but with their need to stand up to the Soviets they should in theory do nothing to jeopardise relations with Peking. Needless to say they are trying to have it both ways, and there is a serious danger that arms sales to Taiwan will upset the relationship with China.

/25.



25. Along with the anti-Soviet focus goes a deep scepticism in the present Administration about the value of any kind of North South dialogue, and a distaste for the UN. Why should the United States, defender of the free world, put up with a barrage of insults from an organisation dominated by the vociferous and incompetent? Hence their attitude to UNLOSC and to global negotiations. The Americans are scathing about the UN as a forum for helping developing countries, as compared with the World Bank or the IMF and they have a predilection for bilateral rather than multilateral aid.

26. Relations between the UK and the new US Government were given a good foundation by the Prime Minister's visit here in February; they have remained predictably close. Apart from a more than usually large flow of defence, commercial, cultural etc, exchanges, intensified by the advent of a new Administration, there were thirty-nine Ministerial visits to the US in 1981 and six visits by Select Committees of the House of Commons. Northern Ireland, particularly the hunger strike, brought us a lot of trouble. On the bright side, not for a long time have we had so much or such favourable publicity as that produced by the Royal Wedding. Our economic difficulties continue to weaken our authority, but our Presidency of the Community, at a time of heightened international tension, has added something to our relationship with Washington.

I have the honour to be
My Lord
Your obedient Servant

Nicholas Henderson



CALENDAR OF EVENTS 1981

JANUARY

- 1 President Carter sets a deadline of 16 January for Iranian response to US proposals on the hostage crisis.
- 2 President Carter extends for another year the US embargo on the sale of grain to the Soviet Union.
- 5 97th Congress convenes. Republicans control the Senate for the first time in twenty eight years.
- President-elect Reagan meets President Lopez-Portillo in Mexico.
- 9 - 15 Senate Foreign Relations Committee holds confirmation hearings on Secretary of State-designate Alexander Haig.
- 14 - 16 Visit to Washington of the Race Relations and Immigration Subcommittee of the House of Commons Home Affairs Committee.
- 15 President Carter submits to Congress his budget for FY 1982 including a projected deficit of \$27 billion.
- 16 President Carter sends his final State of the Union message to Congress.
- 19 President Carter announces agreement with Iran on terms for the release of the US hostages.
- 20 Ronald Wilson Reagan sworn in as 40th President of the United States.
- US hostages released from Tehran.
- 27 US hostages greeted by President Reagan in Washington.
- 28 Visit of Prime Minister Seaga of Jamaica for talks with President Reagan.
- President Reagan removes remaining price controls on gasoline, propane, and US-produced crude oil.
- 28 - 5 Visit of President Chun of South Korea for talks with
Feb President Reagan.
- 29 In his first press conference as President, Mr Reagan criticises the Soviet Union as liars and cheats.

/FEBRUARY



FEBRUARY

- 1 - 6 Visit to the United States of cross-party group of MPs on Northern Ireland (Michael Mates (Conservative), Don Concannon (Labour) and Stephen Ross (Liberal))
- 3 At his first press conference, Secretary of Defense Weinberger announces that the US Government is looking at the possibility of producing the neutron bomb.
- 5 Mr Reagan, in his first broadcast as President, says that economic calamity threatens the United States.
- 6 President Reagan's 70th birthday.
- 18 President Reagan delivers economic address to Congress outlining his Administration's economic strategy.
- 25 - 28 Visit of the Prime Minister, The Rt Hon Margaret Thatcher MP, and the Secretary of State for Foreign and Commonwealth Affairs, The Rt Hon The Lord Carrington, to Washington and New York.
- 26 Prime Minister holds talks with President Reagan, meets Senators and Congressmen and attends dinner at the White House.
- Pope John Paul II visits Anchorage, Alaska.
- 27 Prime Minister receives honorary degree from Georgetown University and gives dinner at the British Embassy in honour of President and Mrs Reagan.
- 28 Prime Minister receives Donovan Award in New York.

MARCH

- 3 In a television interview, President Reagan says that his Government will not allow US involvement in El Salvador to turn into another Vietnam.
- 6 President Reagan gives his second press conference devoted mostly to El Salvador.
- Walter Cronkite retires as CBS News Anchorman.
- 10 President Reagan submits to Congress FY 1982 budget totaling \$695.3 billion (\$43.9 billion less than sum proposed by President Carter).

/US Treasury



- 10 US Treasury announces policy of not interfering on foreign exchange markets on its own account except to counter conditions of disorder.
- 10 - 12 Visit of the Secretary of State for Defence, The Rt Hon John Nott MP, for talks with Secretary of Defense Weinberger.
- 16 "Four Horsemen" (Senators Kennedy and Moynihan, Speaker O'Neill and Governor Carey) issue annual St Partick's Day Statement on Northern Ireland and announce formation of Friends of Ireland group.
- 17 President Reagan lunches at Irish Embassy and issues St Patrick's Day statement on Northern Ireland.
- 18 In his first appearance as Secretary of State, Mr Haig tells House Foreign Affairs Committee that the Soviet Union is responsible for international terrorism
- 19 Senate Budget Committee vote spending cuts totalling \$36.4 billion for 1982.
- 22 - 27 Visit to Washington of House of Commons Defence Committee.
- 26 Secretary Haig publicly denies rumours that he plans to resign in dispute over control of crisis management in the Administration.
- 30 Assassination attempt on President Reagan.

APRIL

- 1 Prime Minister of the Netherlands, Mr van Agt, holds talks with Vice President Bush, standing in for President Reagan.
- 3 President Reagan, from hospital, sends a letter to President Brezhnev emphasising the US Administration's concern over the situation in Poland.
- 4 - 8 Secretary Haig visits Italy, Egypt, Israel, Jordan, Saudi Arabia and Spain.
- 7 President Reagan leaves hospital.
- 12 - 14 First flight of space shuttle Columbia.
- 22 - 12 Visit to United States of the Archbishop of Canterbury, May the Rt Rev Robert Runcie.

/President Reagan



- 24 President Reagan lifts embargo on sale of grain to Soviet Union.
- 28 President Reagan gives his first nationally televised address to Congress since assassination attempt.
- 30 - 3 Visit of HRH The Prince of Wales to Washington DC and
May Virginia.

MAY

- 3 Japanese manufacturers agree to limit car exports to the United States.
- 3 - 10 Visit of Minister of State for Trade, Mr Cecil Parkinson MP
- 4 - 5 Secretary of State Haig attends NATO Ministerial Meeting in Brussels.
- 4 - 8 Visit to United States of Prime Minister Suzuki of Japan.
- 6 Message to Prime Minister from Four Horsemen criticising British handling of the hunger strike in Northern Ireland.
- 7 President Reagan scores his first major Congressional victory: the House of Representatives approves spending target of \$688.8 billion for FY 1982.
- 7 - 8 Visit of Mr Nicholas Ridley MP, Minister of State at the Foreign and Commonwealth Office, for talks on the future of Belize.
- 12 US Administration proposes revisions to social security system.
- 17 President Reagan receives honorary degree at Notre Dame University: his first public appearance outside Washington since assassination attempt.
- Senate votes unanimously against President Reagan's proposed cuts in social security benefits.
- 20 - 23 Visit of Chancellor Schmidt of the Federal Republic of Germany for talks with President Reagan.
- 25 - 27 Visit of Secretary of State for Employment, The Rt Hon James Prior MP
- 28 - 29 Visit of Secretary of State for Energy, The Rt Hon David Howell MP.

/House of Commons



30 - 2 House of Commons Committee on Education, Science and the
June Arts visit to Washington.

JUNE

- 4 President Reagan revises his income tax cut proposals from 30% to 25% over three years.
- 5 Senate Foreign Relations Committee votes against appointment of Ernest Lefever as Assistant Secretary for Human Rights: first rejection of a Presidential nominee in thirty one years.
- 8 - 9 Visit of President Lopez-Portillo of Mexico.
- 8 - 11 Visit of Lord Trenchard, Minister of State for Defence.
- 9 State Department condemns Israeli raid on Iraqi nuclear reactor of 7 June.
- 10 US Administration suspends delivery of F16 shipments to Israel.
- 12 - 16 Visit to the United States of the Lord Privy Seal, The Rt Hon Sir Ian Gilmour MP
- 16 President Reagan gives his first press conference since assassination attempt.
- 16 - 18 House of Commons Energy Committee visit to Washington.
- 17 HRH The Prince of Wales attends performance of the Royal Ballet in New York.
- 18 Meeting in Washington between President Reagan and Prime Minister Lee Kuan Yu of Singapore.
- 19 United States votes for Security Council resolution condemning Israeli bombing of Iraqi nuclear reactor.
- 20 - 21 Visit of the Secretary of State for Defence, The Rt Hon John Nott MP, for talks with Secretary of Defense Weinberger.
- 23 - 24 Visit to Washington of the Minister of Agriculture, The Rt Hon Peter Walker, MP
- 25 Vice President Bush holds talks with Prime Minister and Lord Carrington in London.

/House of Representatives



- 26 House of Representatives approves the Reagan budget by 217 - 211 votes.
- 30 Talks in Washington between President Reagan and Prime Minister of Australia, The Rt Hon Malcolm Fraser.

JULY

- 7 President Reagan defends US foreign policy in a speech in Chicago.
- President Reagan nominates Sandra Day O'Connor to be the first woman member of the Supreme Court.
- 9 - 10 Visit of Mr Michael Alison MP, Minister of State for Northern Ireland, for talks with the Administration and Congress on Northern Ireland.
- 10 - 11 Visit of Mr Nicholas Ridley MP, Minister of State at the Foreign and Commonwealth Office, for talks on Belize.
- 14 Mr Max Hugel, CIA chief of covert operations, resigns following revelations of business malpractice.
- Secretary of State Haig in speech to the Foreign Policy Association, sets out Administration's policy on arms control.
- 16 Visit to Washington of House of Commons Select Committee on Transportation.
- 16 - 17 Visit of The Rt Hon The Lord Carrington, Secretary of State for Foreign and Commonwealth Affairs, for talks with Mr Haig and Mr Weinberger.
- 17 US Administration presents the National Energy Policy Plan to Congress, emphasising a more market-oriented approach to energy policy.
- 19 - 21 President Reagan attends Ottawa Seven-Power Summit.
- 27 In televised appearance to the nation, President Reagan calls for public support for his tax cut proposals.
- 29 Mrs Reagan attends Royal Wedding in London.
- President Reagan wins support for tax cut bill by 238 - 195 votes in House of Representatives.

/After questioning



- 29 After questioning CIA Director, William Casey, for five hours in closed session, Senate Intelligence Committee decides that there is no basis for concluding that Casey is unfit to serve.

AUGUST

- 3 US Air Traffic Controllers' strike begins. President Reagan announces sacking of strikers.
- Four Horsemen ask for meeting with President Reagan following hunger strike deaths in Northern Ireland.
- US dollar climbs to eleven year high on foreign exchange markets.
- 4 - 9 State visit of President Anwar Sadat of Egypt
- 6 - 3 President Reagan on holiday in California.
Sept
- 11 Secretary of State Haig makes major speech on East/West relations.
- 13 President Reagan signs Economic Recovery Tax Act and Omnibus Reconciliation Act to implement his economic programme.
- 17 Following meeting of the National Security Council in Los Angeles, US Government announces resumption of F15/16 supplies to Israel.
- 18 President Reagan holds meeting with economic advisers in Los Angeles to discuss forecasts of budget deficits.
- 19 US shoots down two Libyan aircraft over the Gulf of Sirte.
- 21 Defense Secretary Weinberger holds talks in London with Secretary of State for Defence, The Rt Hon John Nott MP
- 25 Federal Reserve Board approves Midland Bank bid for Crocker National Bank.
- 31 US Stock Market plunged fifty points during the month of August.

SEPTEMBER

- 1 US vetoes UN Security Council draft resolution condemning South African invasion of Angola.

/Visit to the



- 7 - 14 Visit to the United States of Prime Minister Menachem Begin of Israel.
- 10 US Cabinet meets to decide further budget cuts for FY 1982 and 1983.
Congressional Budget Office predicts budget deficit of \$80 billion for FY 1982.
- 12 Secretary Haig, on visit to Europe, holds talks with Crown Prince Fahd of Saudi Arabia in Malaga.
- 15 - 17 Visit to Washington of the Secretary of State for Trade, The Rt Hon John Biffen MP
- 18 President Reagan, President Lopez-Portillo of Mexico and Prime Minister Trudeau of Canada meet in Grand Rapids, Michigan at dedication of Gerald Ford Museum.
- 19 250,000 people take part in US labour solidarity rally in Washington DC.
- 20 - 3 Visit to the United States of Mr Timothy Raison MP, Minister of State at the Home Office, to study US race relations.
Oct
- 21 - 23 Visit to New York of The Rt Hon The Lord Carrington, Secretary of State for Foreign and Commonwealth Affairs, for the UN General Assembly.
- 23 Meeting between Secretary Haig and Soviet Foreign Minister Gromyko in New York.
- 24 In a speech to the nation President Reagan proposes \$16 billion of new spending cuts and minor tax increases for FY 1982.
- 25 Sandra Day O'Connor sworn in as the first woman Justice of the Supreme Court.
- 25 - 1 Visit to the United States for IMF/IBRD meeting of the Chancellor of the Exchequer, The Rt Hon Sir Geoffrey Howe MP, and the Governor of the Bank of England, Mr Gordon Richardson.
Oct
- 25 President Daniel Arap Moi of Kenya visits Washington for talks with President Reagan.
- 29 President Reagan, in a speech to the IMF/IBRD annual meeting, stresses the role of the private sector in economic development.

/Senate



30 Senate votes to repeal Clark Amendment banning covert aid to factions in Angola.

OCTOBER

- 1 In his fourth press conference, President Reagan announces US intention of maintaining pro-West regime in Saudi Arabia.
US Administration notifies Congress of its intention to sell five AWACS aircraft to Saudi Arabia.
- 2 President Reagan announces decision on basing of MX missiles, construction of the B1 bomber and development of the D5 Trident missile.
- 6 President Reagan condemns assassination of President Anwar Sadat of Egypt as "cowardly infamy".
- 6 - 9 Visit to Washington of Mr Peter Blaker MP, Minister of State for the Armed Forces.
- 8 President Reagan makes major statement on civil nuclear policy including removal of ban on the reprocessing of spent fuel from nuclear power plants.
- 10 Ex-Presidents Carter, Ford and Nixon attend President Sadat's funeral in Cairo.
- 12 - 16 Visit to the United States of Lord Trenchard, Minister of State for Defence Procurement.
- 13 - 14 State visit to the United States of King Juan Carlos of Spain.
- 14 US House of Representatives votes by 301 - 111 against proposed F15 enhancement/sale of AWACS to Saudi Arabia.
- 15 Senate Foreign Relations Committee votes 9 - 8 against F15 enhancement/sale of AWACS to Saudi Arabia.
In a speech in Philadelphia, President Reagan urges developing countries to emulate US economic success.
- 17 - 19 Visit of the Lord Chancellor, The Rt Hon The Lord Hailsham, for celebration of the 200th anniversary of the Battle of Yorktown.
- 17 - 19 State visit of President Mitterrand of France.

/Defense Secretary



- 20 - 22 Defense Secretary Weinberger attends NATO Nuclear Planners Group meeting at Gleneagles, Scotland.
- 21 - 23 President Reagan attends North/South Summit in Cancun, Mexico.
- 21 - 23 Visit to Washington of the Minister of State for Consumer Affairs, The Rt Hon Sally Oppenheim MP
- 22 - 23 Visit of Lord Trefgarne, Parliamentary Under Secretary of State, Foreign and Commonwealth Office, including meeting with Deputy Secretary Clark.
- 25 - 30 Visit of House of Commons Select Committee on Foreign Affairs.
- 28 US Senate approves F15 enhancement/sale of AWACS aircraft to Saudi Arabia by 52 - 48.
- 30 Treasury Secretary Regan says that a balanced budget by FY 1984 is "possible but not probable".

NOVEMBER

- 2 - 4 State visit to Washington of King Hussein and Queen Noor of Jordan.
- 3 President Reagan expresses confidence in Secretary Haig following press speculation over Haig's future as Secretary of State.
- Democrats capture governorship in Virginia state elections.
- 4 Secretary Haig, in testimony to the Senate Foreign Relations Committee, says that NATO planning includes the possibility of a demonstrative nuclear explosion.
- 6 President Reagan receives Irish American Historical Society Award in New York.
- President Reagan publicly acknowledges that balanced budget is unlikely to be achieved by FY 1984.
- 10 At Mr Reagan's fifth Presidential press conference he reaffirms faith in his basic economic plan.
- 12 In an article published in Atlantic Monthly, OMB Director, David Stockman, expresses scepticism about Reagan economic programme.

/Second flight



- 12 - 14 Second flight of the US Space Shuttle Columbia
- 13 Richard Allen, National Security Adviser, implicated in bribery allegations following receipt of \$1000 honorarium from Japanese magazine.
President Reagan declines to accept offer of resignation by OMB Director, David Stockman.
- 16 By 201 - 189 votes House of Representatives defeats stopgap spending bill backed by the Administration.
- 16 - 19 State visit of President Luis Herrera Campins of Venezuela.
- 18 President Reagan, in speech on US arms control policy, proposes zero outcome in Long Range Theatre Nuclear Force negotiations.
- 19 House of Representatives approves Administration's BI bomber and MX missile programmes.
- 22 - 24 Visit to Washington of Minister of State for Foreign and Commonwealth Affairs, Mr Richard Luce MP for talks on Belize.
- 23 UK, France, Italy and Netherlands announce participation in Sinai multinational force.
President Reagan vetoes Congressional temporary funding resolution for FY 1982. Existing continuing resolutions extended to 15 December.
State Department welcomes European participation in Sinai multinational force.
- 23 - 25 Visit to Washington of Minister of State for Foreign and Commonwealth Affairs, The Hon Douglas Hurd MP for talks on the Middle East and disarmament, including meeting with Secretary Haig.
- 27 Israeli Foreign Minister Shamir holds talks in Washington with Secretary Haig on Israeli reaction to European participation in the Sinai multinational force.
- 29 President Reagan's National Security Adviser, Richard Allen, takes administrative leave following allegations of financial malpractice.
- 30 US/USSR talks on intermediate nuclear forces open in Geneva.

/November



30 November unemployment rate of 8.4% is highest in over six years.

US/Israel strategic cooperation agreement signed in Washington DC.

DECEMBER

- 1 Department of Justice finds no grounds for appointing a Special Prosecutor to investigate Japanese payment to Richard Allen.
- Following lengthy investigation into CIA Director William Casey, Senate Intelligence Committee concludes that Casey is "not unfit to serve".
- 2 President Reagan meets AFL-CIO labour leaders at the White House.
- 2 - 3 Visit to London of Deputy Secretary Clark for talks with the Lord Privy Seal, The Rt Hon Humphrey Atkins MP, and other Government Ministers.
- 3 - 11 Defense Secretary Weinberger visits Morocco, Turkey, Brussels (for NATO Defence Ministers meeting) and London (including talks with Secretary of Defence, John Nott and the Prime Minister).
- 4 President Reagan signs new regulations easing restrictions on US collection of foreign intelligence.
- Secretary of State Haig, at OAS meeting in Saint Lucia, calls for action against Nicaraguan/Cuban threats to the peace.
- 8 President Kyprianou of Cyprus holds talks in Washington with President Reagan and Secretary Haig.
- 9 Secretary Haig visits Brussels for NATO Foreign Ministers' meeting.
- Department of Justice launches enquiry into possible kick-backs received by Labour Secretary Donovan.
- 10 President Reagan calls on all Americans to leave Libya as soon as possible and invalidates passports for travel to Libya.
- 11 Congress adopts continuing resolution authorising federal expenditure until 31 March 1982.

/Secretary Haig



- 13 Secretary Haig cancels planned visits to Israel, Turkey, Pakistan, India, Egypt and Morocco and returns to Washington from Brussels following declaration of martial law in Poland.
- 15 President Reagan signs into law a temporary Congressional resolution funding the Government until the end of March 1982.
- 16 First session of the 97th Congress ends.
- 17 In his sixth Presidential press conference, Mr Reagan says that the US Administration views the Polish situation in the gravest terms.
- US votes for UN Security Council Resolution declaring Israel's annexation of the Golan Heights null and void.
- 18 US announces suspension of strategic cooperation agreement with Israel.
- 20 Polish Ambassador to the US, Romuald Spasowski, is granted political asylum in the US.
- 21 State Department revokes visa of the Rev Ian Paisley MP and denies him entry into the US.
- 23 President Reagan, in Christmas broadcast to the nation, announces economic action against Poland and warns of action against the Soviet Union if repression continues.
- US Department of Justice clears National Security Adviser, Richard Allen of wrongdoing. Department of Justice appoints a special prosecutor to investigate allegations against Labour Secretary Donovan.
- 27 President Reagan, in a press interview, says that a summit meeting with President Brezhnev is likely in 1982.
- 28 Secretary of State Haig attends lunch at the British Embassy with European Community Ambassadors.
- 29 President Reagan announces sanctions against the Soviet Union.



With the compliments of
HER MAJESTY'S AMBASSADOR

BRITISH EMBASSY
WASHINGTON, D.C.



Prime Minister

fs

Paul

UNITED STATES: ANNUAL REVIEW 1980

SUMMARY

1. The Presidential election result reflects the mood of the country: not heroic, but a mixture of frustration and resignation, condemning Carter's incompetence and acknowledging Reagan's qualities (paragraphs 1-4).

2. Inflation and Iran were the two decisive nails in Carter's coffin. There has been inconsistency in the handling of the economy. The energy policy has been only partially successful. On trade policy he has contained the worst protectionist pressures (paragraphs 5-9).

3. Opinion polls failed to predict Reagan's landslide, a movement that has also affected Congress where the Republicans now have a Senatorial majority (paragraph 10).

4. Most issues have had to be seen through the electoral lens: Iran, Africa and Central America. Resolute measures were taken after Afghanistan, but these led to tensions in the Alliance. The Iraq/Iran war provided an unexpected break enabling the USA to secure a firmer military footing in the Gulf and to give greater substance to the Carter doctrine (paragraphs 11-12).

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5. The problems of relations with Saudi Arabia and of the Arab/Israel dispute will persist (paragraphs 13-14).
6. Greater defence spending is accepted by the US public. The Allies are criticised for not doing more. The reasons for SALT stagnating (paragraphs 15-17).
7. It would be wrong to assume that there will necessarily be decisive leadership ahead (paragraph 18).
8. Anglo-US relations have been good, though the halo enveloping the UK since May 1979 has been dispersed. Reagan can be relied upon to make a close partnership with the UK a central plank in his policy (paragraphs 19-20).

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FROM THE AMBASSADOR

BRITISH EMBASSY.

WASHINGTON D. C. 20008

TELEPHONE: 202 462-1340

31 December 1980

The Right Honourable
The Lord Carrington KCMG MC
Secretary of State for Foreign
and Commonwealth Affairs
London SW1

My Lord,

ANNUAL REVIEW

1. "How fortunate you are to be here at such an interesting time", many Americans say to me, as the Carter Administration brings down the curtain and the Republicans crowd the wings. This reflects the detached, inquisitive mood that prevails - as though the Americans, far from feeling that they belong to God's own country, the military, political and industrial paragon of the world, see themselves as some sort of exhibit, neither proud nor shameful; interesting, yes, but not great. I must admit that the resignation with which the country swallowed the fiasco of the failed hostage-rescue operation has been surprising to those who expect heroic responses from a great power. Detroit's eclipse by Japan as the car centre of the world has been accepted with fatalism. True, the failures that have occurred at home and abroad have had political repercussions. "Is America as respected throughout the world as it was?" Reagan asked at the conclusion of his TV debate with Carter. The electorate gave their answer on the 4th;

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but they seemed to me to be showing frustration rather than anger.

2. In recording this impression I realise that I am breaking the golden rule of all those called upon to generalise about the American scene, which is to refrain from doing so. The country and people are too vast and varied for any universal conclusions about them to be valid; and it is no more possible for an observer to attempt to catch America's likeness with one broad sweep than it is for the US Government to be able to impose any single pattern or strict discipline upon the country.

3. The election to the Presidency, to what is widely considered to be the most powerful office in the western world, of a man whose career had been spent entirely in California, much of it in making B-films, to succeed a southerner, whose trade had been in peanuts, testifies, in a way that seizes the least-troubled mind with something approaching fearful dread, to the diverse, unpredictable, not to say wayward, nature of US public life.

4. How and why has Reagan got there? The answer is to be found partly in the incompetence of Carter, a failure felt as much by traditional Democrats as by Republicans, and partly

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in the embodiment by Reagan of America's present frame of mind. To say that Carter has shown himself accident-prone scarcely does justice to the device within him that homes unerringly on any banana-skin. Recognition must also be made of Reagan's good-humour and beguiling voice, instruments that he played upon with charm and stamina to silence successfully those trying to make out that he was nothing more than a trigger-happy, reactionary light-weight.

5. If a Gilbertian air of incompetence emanated from the White House throughout the year and if the frequent chorus of lament from on high about the country's general economic malaise, including the growing unemployment, has prompted intimations of mortality, it is inflation and Iran that have been the two most decisive nails in Carter's coffin. In the autumn of 1979, it looked to most American commentators as though Carter's main problem in securing a second term would lie in Senator Edward Kennedy's challenge for the Democratic nomination; if he could but get the nomination he was surely likely to beat any Republican candidate, particularly Reagan, for long the Democratic choice for the Republican candidacy. But though in the early autumn Carter had achieved his wish both of defeating Kennedy and of having Reagan against him, he had also succeeded in winning nation-wide disenchantment for his handling of the economy and the hostages.

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6. In the second quarter of 1980 the economy experienced one of the largest declines (2.3%) since World War II. (Car sales and housing were hit particularly hard.) For 1980 as a whole the decline has been about 1%, caused largely by higher oil prices, tight money and credit controls. Unemployment has risen to over 7%. However, it was the continuing high rate of inflation in an election year - a rise of over 13% in consumer prices - that made a particular contribution to the public's disaffection with Carter.

7. It may be true, as the Administration has claimed, that no policies would have succeeded this year in the face of external conditions. There was also the perennial problem that the important fiscal decisions rest ultimately with the Congress. But it cannot be denied that there was inconsistency in execution, which has earned severe criticism. A prime example of this was the way in which an emergency economic package was announced in March, only two months after the President's proposals for the budget. Interest rates also roller-coasted throughout the year. The Administration continued with its voluntary wage and price guidelines but, like its fiscal policy, these lacked conviction and were not particularly effective judged by results.

8. Carter's energy policy has been partially successful. The synthetic fuels legislation passed Congress but other

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initiatives failed. The well-intentioned but ill thought-out gasoline conservation fee aroused such antagonism that President Carter had his veto powers decisively overridden, the first such defeat for a Democratic President since Truman. Meanwhile, however, the American energy situation improved considerably with oil imports now running 25% lower and consumption 7% than in 1979. Much of the credit for that must go to Carter for his decision in 1979 to start removing the controls on American oil prices, certainly the most effective and perhaps the only really effective energy decision taken during his Administration.

9. As regards trade policy, Carter has had, in an election year, to lend sympathy to domestic industries, like steel, pressing for import relief; equally he has had to avoid the risk of serious confrontations with his major trading partners. He has steered a middle course, and managed to contain the worst protectionist pressures. The underlying problems will, however, resurface early on in Reagan's term of office. He will, for example, have to decide whether to restrict Japanese car imports, what to aim for in the renegotiation of the Multifibre Agreement, and how to react to EC pressure over US textile exports. Despite his preference for the promotion of exports to the restriction of imports, Reagan may face irresistible political and economic pressures to offer some

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import relief to the less efficient US industries.

10. No account of the times would be complete without giving the opinion polls their due. Right up to election day they were showing Carter and Reagan running neck and neck, and insisting that the result was "too close to call", a prophesy as bad as any since 1948. But it has to be recognised that no-one, including Reagan himself, predicted the landslide, a movement that has also affected the elections to the Congress where the Republicans now have a majority in the Senate (though not in the House of Representatives, despite a strong swing there to the right) for the first time since 1955. Whether the 1980 elections will prove to be a watershed will depend not only on how Reagan's Administration fares, not least in its dealings with Congress, but also on whether the Republicans on the Hill can adjust to the responsibilities of power after a generation in opposition.

11. Looking back over the hostage drama it is difficult to exaggerate how far Carter's political fortunes have hung upon it. This time last year the opportunity for "statesmanship" by the US President that Khomeini suddenly offered enabled Carter to hold off Kennedy's challenge; and up to the eve of the election the Republicans feared that Carter might pull off some settlement that could offset his defects. But as things turned out the Americans, when they went to the polls, had come to view the hostages in the catalogue of Carter's failures.

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12. Practically every issue this past year, whether domestic or foreign, has had to be seen through the electoral lens. The Administration made much play (justifiably) with the success of their Africa policy in persuading Black Africa that the US should not be seen as the automatic ally of apartheid. There was also a steady improvement in relations with China. On the other side, turbulence in Central America and Castro's dumping of 200,000 refugees on Florida were political embarrassments. Similarly, the Soviet move into Afghanistan has been one of the counts against Carter. American weakness and the President's vacillations since he came to office have been widely held to have emboldened the Russians to invade. It was to counteract this impression, but also with genuine, if belated, determination to show sufficient strength to deter the Soviets, now dangerously close to the Gulf, from attempting further adventures, that Carter undertook a series of resolute measures whatever the risks eg. the grain embargo, Olympic boycott and the promulgation of the Carter doctrine. But even with these there was ambiguity in statement and confusion in timing, and the tensions and uncertainties generated within the Alliance had the effect of increasing the doubts at home about the President's competence in foreign affairs. In the immediate aftermath of Afghanistan the Americans busied themselves in establishing or enhancing defence facilities in Oman, Egypt, Somalia, Kenya and Diego Garcia in support of plans for injecting into the area new US military

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strength in the form of the Rapid Deployment Force (RDF). However, only Oman lies within immediate striking distance of the likely scene of conflict. It was the Iraq/Iran war that provided an unexpected break. Though it added to the price of oil and to the instability of the area, the war opened up a long-sought opportunity for the Americans to secure a firmer military footing inside the Gulf, and with it the chance to give greater substance to the Carter doctrine. They seized this by grabbing an invitation from the Saudis to provide AWACS.

13. How to build an enduring relationship with the Saudis that meets both oil and strategic needs will be one of the most urgent and delicate tasks facing the new US Administration. It will be affected by the degree of danger felt by the Saudis; it could be impaired by Saudi fears that Reagan is tilting too much to Israel.

14. The Egypt/Israel peace treaty of 1979 was certainly seen here as one of the successes of Carter's diplomacy. But nothing that has occurred this past year, or that looks attainable in the future within the compass of the Camp David process, can be expected to contribute to his record on this subject. Indeed, his reluctance, predictable, if understandable in ^{an} election year, to put the necessary pressure on Israel without which the autonomy talks could not succeed, let alone on schedule, failed to bring him the success in the Middle East

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that could well have helped him electorally, while also failing to secure for him the Jewish support upon which he hoped, vainly as it turned out, to be able to rely on 4 November.

15. Risking generalisation once again, I suggest that much of the US public, while far from bellicose, is worried about the country's margin of safety. There is an almost embarrassing frankness about the serious deficiencies in America's conventional forces, especially in the quality of its man-power. There is universal acceptance of the need for greater defence spending, which will in fact increase by over 4% in 1980 in real terms.

16. The Allies are readily criticised - for not doing more militarily in Europe, for leaving the USA to bear the brunt of the security burden in the Gulf, and more generally (particularly the FRG and France) for not reacting sufficiently forthrightly to the Soviet invasion of Afghanistan. Under a Reagan Administration I think that the trans-Atlantic debate will continue over detente. A good deal will depend upon the outcome of the present Polish crisis. But there is a danger of a serious rift developing in the Alliance if the US Administration and Congress become convinced that the West Europeans are not responding sufficiently resolutely to what the Americans consider to be a strong challenge by the Soviet bloc to the security of the West. I should add that there are

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the makings of a similar problem with Japan whose military contribution is not thought commensurate with their economic power - or their security needs in the Gulf for oil.

17. Afghanistan, and the anxieties about the strategic balance which it generated, ensured that there was never any realistic hope that SALT could be brought forward again. Many opinions conspired against it: the feeling that the Russians could no longer be trusted to observe even a formal treaty; the view that the conventional balance was now so distorted that America could not accept anything short of a restoration of strategic nuclear superiority; a revival of linkage theory and the idea of a price that the Soviets could and should be made to pay for strategic arms control. With SALT stagnating, lesser arms control negotiations came to a standstill too, excepting only the cautious preliminary opening of talks with the Russians in October on Theatre Nuclear Forces (TNF), as required by the Alliance decision of last December. The Carter Administration showed a sensitive understanding of the dependence, for the Europeans, of progress in TNF deployment on a continuation of the arms control process. The new Administration may understand the link less clearly, and have less sympathy for the nervousness caused by nuclear weapons in Europe.

18. Before concluding about Anglo-US relations, I should say that I think it would be wrong to assume that because there is

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a new Administration here based on a wide majority and a new sentiment on the Hill, this will necessarily lead to decisive US leadership. The checks and balances of the system can be relied upon to prevent this happening, not to mention the intractable nature of many of the problems.

I do not say that within a few months Carter's regime will be looked back upon as an idyll, but those dealing with America in the immediate future will perforce be reminded of the inexperience of the new Administration and much of the new Congress, and of the nature of public life here which militates deliberately against strong government.

19. As regards Anglo/US relations, following our elections of last year there have been a great many Ministerial and Parliamentary visits here. There has also been a considerable increase in tourism from the UK, the consequence both of the exchange rate and of the extension of the air services available as a result of the new UK/US Air Services Agreement. There have been two notable successes in UK defence sales - the Marconi Avionics and the Rapier contracts - and there has been the British decision to purchase Trident, with far-reaching consequences for our future relations. Remarkably, given the exchange rate, British exports will have reached the record figure of 4½ billion pounds in the last year, increasing our share of the US market by more than any of our competitors have done.

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20. Much of the halo in which the UK has been enveloped in American eyes since the change of government last year has been suddenly dispersed by a flurry of comment on our persistent economic and industrial difficulties. Few here any longer point to the UK as a model for the economic policy to be followed by the USA. There is, of course, an element of domestic politics in this; and our relations remain generally sound. The British Government's foreign policies are viewed as both forthright and helpful. Reagan himself, and the new Administration, can be expected to do everything they can to put into practice the conviction they have long expressed, to make close partnership with the UK a central plank of their policy. The announcement on 31st December of the Prime Minister's forthcoming visit here, the first to be made to the new Administration by a Head of Government after the Inauguration, rang out the year on a promising note.

I have the honour to be
My Lord
Your obedient Servant

Nicholas Henderson

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UNITED STATES: ANNUAL REVIEW FOR 1980

CALENDAR OF EVENTS

January 1980

- 4 President Carter broadcasts to the Nation about the Soviet invasion of Afghanistan
- 4-14 Visit of The Rt Hon James Callaghan MP (leader of the Opposition) and Mrs Callaghan
- 8-12 Visit of The Rt Hon Norman Fowler MP (Minister of Transport) and Mrs Fowler
- 10 Death of George Meany (former President AFL-CIO)
- 13 Soviet Union vetoes UN Security Council Resolution on economic sanctions against Iran
- 17-18 Visit of Mr Nicholas Ridley MP, Minister of State FCO
- 20 President Carter announces US Government support for an Olympic boycott
- 20-22 Visit of Hans-Dietrich Genscher, Foreign Minister of the Federal Republic of Germany
- 21 President Carter and Mr George Bush victors in the Iowa State Caucuses
- 23-26 Visit to Washington of Prime Minister Cossiga of Italy



January 1980 cont

- 23 President Carter's State of the Union address, including announcement of draft registration and definition of US interests in the Persian Gulf ("The Carter Doctrine")
- 28 President Carter sends his Budget proposals to Congress (proposed FY1981 deficit of \$15.8 billion)
- 29 Six American non-hostage diplomats slip out of Iran with Canadian Embassy help
- 30-1 February Visit to Washington of the Australian Prime Minister, Mr Malcolm Fraser



February 1980

- 1-3 Visit to Pakistan of Dr Brzezinski (National Security Assistant) and Mr Warren Christopher (Deputy Secretary of State)
- 3 'Abscam scandal' involving bribery and corruption in Congress revealed
- 3-7 Visit of Mr Norman Lamont MP (Parliamentary Under Secretary of State, Department of Energy)
- 8-12 Visit of TRH Prince and Princess Michael of Kent
- 14-15 Visit of the Earl of Mansfield (Minister of State, Scottish Office)
- 15-22 Mr Hector Munro (Parliamentary Under Secretary, Department of the Environment) attends Winter Olympics at Lake Placid
- 22-6 March Visit to the USA of HRH Prince Andrew
- 26 President Carter and Governor Reagan win New Hampshire primaries



March 1980

- 3 President Carter states that US Security Council vote on Israeli settlements on the West Bank was "a mistake"
- 4-6 Visit of Chancellor Schmidt of the Federal Republic of Germany
- 5 Senator Baker withdraws from the Presidential campaign
- 9 Governor Connally withdraws from the Presidential campaign
- 14 President Carter announces crisis economic measures including plans for a balanced budget in FY1981
- "Four horsemen" (Senators Kennedy and Moynihan, Speaker Tip O'Neill and Governor Carey of New York) issue St Patrick's Day statement on Northern Ireland
- 20-21 Visit of The Rt Hon John Nott MP (Secretary of State for Trade)
- 25 Instruments of ratification of US/UK Double-tax Convention exchanged



April 1980

- 1 In early morning press conference President Carter announces positive developments from Iran on the hostage issue
- President Carter wins Wisconsin primary
- 6 Breakdown of scenario (agreed with President and Foreign Minister of Iran) for release of US hostages in Tehran
- 7 President Carter announces break in relations with, and economic measures against, Iran
- 8-10 Visit of President Sadat of Egypt for talks with President Carter
- 14-17 Visit to Washington of Prime Minister Begin of Israel
- 25 President Carter announces failure of attempted rescue of US hostages in Tehran
- 25-27 Visit to Washington of The Rt Hon Norman St John-Stevas MP (Chancellor of the Duchy of Lancaster and Leader of the House of Commons)
- 28 Resignation of the US Secretary of State, Cyrus Vance
- 29 President Carter holds press conference on abortive Iran rescue mission
- 30 President Carter announces that Iran crisis is "manageable", enabling him to undertake campaigning for the Democratic nomination
- 30-1 May Visit to Washington of Mr Nicholas Ridley MP (Minister of State FCO)



May 1980

- 3-6 Visit to Washington of the Rt Hon Lord Carrington, Secretary of State for Foreign and Commonwealth Affairs, and Lady Carrington
- 5 Lord Carrington meets President Carter, Secretary of State-designate Senator Edmund Muskie, Speaker O'Neill and others
- 7 New US Department of Education opens
- 8 Edmund Muskie sworn in as US Secretary of State
- 11-15 Visit of Dr Rhodes Boyson MP (Parliamentary Under Secretary, Department of Education and Science) and Mrs Boyson
- 18 Mount St Helens volcano erupts in Washington State
- 19-30 Visit to the United States of the Lord Strathcona (Minister of State, Ministry of Defence)
- 23 President Carter meets Vice President Mubarrak of Egypt in Washington
- 26-3 June Visit to the United States of The Rt Hon Sir Keith Joseph MP, Secretary of State for Industry
- 26 Camp David target date for completion of Palestinian autonomy negotiations passes
- 28 Assassination attempt on Vernon Jordan, President of the National Urban League
- 30 French Foreign Minister (M. Francois Poncet) in Washington for talks with Secretary Muskie



June 1980

- 3 Mr Reagan wins California and 8 other primaries and is assured of the Republican nomination
- President Carter loses New Jersey, California and 3 other primaries to Senator Kennedy, but has sufficient delegate votes to secure the Democratic nomination
- 5 President Carter vetoes Congressional bill rejecting proposed 10¢ per gallon gasoline tax
- 6 House and Senate overturn President Carter's veto - the first occasion under a Democratic Congress/ President since Truman
- 7-11 Visit of House of Commons Select Committee on Education, Science and the Arts
- 11-17 Visit of House of Commons Select Committee on Energy
- 12-15 Visit to the United States of the Archbishop of Westminster, Cardinal Basil Hume
- 15-16 Visit of Mr Norman Tebbit MP (Parliamentary Under Secretary of State, Department of Trade)
- 17-19 Official visit to the United States of King Hussein of Jordan
- 19 The Rt Hon Edward Heath MP gives testimony before Congress on the Report of the Brandt Commission
- 19-20 Visit of Mr Geoffrey Pattie MP (Parliamentary Under Secretary of State for Defence for the Royal Air Force)



June 1980 con't

19-26

President Carter in Europe for State Visit to Italy,
Economic Summit in Venice and State Visits to
Yugoslavia, Spain and Portugal



July 1980

- 7 Federal Reserve Board announces phasing out of Credit Controls
- 8-10 President Carter visits Tokyo for Memorial Service for Prime Minister Ohira and meeting with Chinese Premier
- 11 Release from Tehran of US hostage, Richard Queen
- 14-17 Republican National Convention in Detroit. (16 - Governor Reagan adopted as Republican Presidential nominee, chooses George Bush as Vice Presidential running mate)
- 15 UK announces intention to purchase Trident missile
- 21 Mid-session Review of FY1981 Budget: President Carter projects deficit of \$29.8 billion for FY1981
- 22 President Carter issues statements about alleged involvement with Libya on the part of his brother, Billy Carter
- 25 US Attorney-General, Benjamin Civiletti, admits discussing the Billy Carter case with President Carter, an alleged breach of his position as Attorney-General
- 27 Ex-Shah of Iran dies in Egypt
- 31 White House releases text of cables about Billy Carter's visit to Libya in 1978



August 1980

- 4 President Carter gives press conference to explain his actions in Billy Carter affair
- 5 Iranians released from prison following violent demonstrations in Washington on 27 July
- 11-14 Democratic National Convention in New York (11 - Senator Edward Kennedy withdraws from Democratic race; 13 - President Carter renominated by the Democratic Convention)
- 16 At press conference on George Bush's departure for Peking, Mr Reagan advocates official relations between US and Taiwan
- 20-23 George Bush visits Peking on behalf of Mr Reagan
- 22-27 Official visit to the United States of Prime Minister Robert Mugabe of Zimbabwe
- 25 Messrs Reagan and Bush clarify position on policy towards Taiwan at a joint press conference
- 27-30 Visit of Lord Bellwin (Parliamentary Under Secretary, Department of the Environment)
- 28 President Carter announces proposals for revitalising the US economy, including measures to encourage business investment and reductions in taxes to offset increases in social security contributions scheduled for 1981



September 1980

- 1 Presidential election campaign formally opens
- 5-15 Visit to the United States of Mr K Speed MP
(Parliamentary Under Secretary, Department of Defence)
- 9 Senator Jacob Javits of New York defeated in
Republican primary by Al D'Amato
- 9 Ronald Reagan makes economic policy statement including
proposed reduction in income tax of 10% a year for
3 years and a balanced budget by FY1983
- 12 Ayatollah Khomeini announces 4 conditions for release
of US hostages
- 14-19 Visit of Mr J Stanley MP (Minister of State,
Department of Environment)
- 14 President Carter's campaign manager, Tim Kraft, stands
down following allegations of drug abuse
- 16-17 Visit of Dr Rhodes Boyson MP (Parliamentary Under
Secretary of State, Department of Education)
- 17-22 Visit of Mr P Rees MP (Minister of State, HM Treasury)
- 17 Dr Brzezinski gives testimony before Senate enquiry
into Billy Carter affair
- 18 President Carter, at a White House press conference,
rules out any apology to Iran to secure release of
the hostages
- 19 Titan II missile blows up in Arkansas
- 21 Televised "Presidential" debate between Ronald Reagan
and independent candidate, John Anderson



September 1980 con't

- 21-26 Visit of The Rt Hon Lord Carrington and Lady Carrington to New York for the UN General Assembly
- 23 President Carter pledges neutrality in Iran/Iraq conflict
- 23-25 Visit of The Rt Hon Nicholas Edwards MP (Secretary of State for Wales, and Mrs Edwards)
- 24 US Senate approves sale of enriched uranium fuel to India
- 25-26 Visit of The Rt Hon David Howell MP (Secretary of State for Energy)
- 25 US Secretary of State, Edmund Muskie, meets Soviet Foreign Minister Gromyko in New York
- 26-10 October Visit of The Rt Hon Sir Geoffrey Howe MP, Chancellor of the Exchequer, and Mr Gordon Richardson, Governor of the Bank of England, for IMF/IBRD meetings in Washington
- 26-28 Lord and Lady Carrington visit Washington
- 30 Mr Reagan confirms that, if elected President, he would withdraw SALT II Treaty from Senate consideration



October 1980

- 3 President Zia of Pakistan visits Washington to brief President Carter on his mediation efforts in Persian Gulf war
- 5 United States announces despatch of radar and communications equipment to Saudi Arabia for defensive use
- 7-8 State visit of President Shehu Shagari of Nigeria
- 14-15 Visit of Mr Nicholas Ridley MP, Minister of State FCO
- 19 Mr Reagan gives nationwide address on foreign and defence policy
- President Carter says that Mr Reagan's policies could push the United States closer to the "nuclear precipice"
- 22 US/China sign bilateral grain agreement
- 23 CBS/New York Times poll shows President Carter and Mr Reagan neck and neck in election race
- 27 Cuba releases 30 Americans held in jail
- 28 President Carter and Mr Reagan take part in televised election debate
- 30 Richard Allen, Reagan's principal adviser on foreign policy, withdraws from the Reagan campaign organisation following allegations of past malpractice
- President Carter names A W Clausen, President of Bank of America, to be President of the IBRD



November 1980

- 2 Iranian Parliament votes to release US hostages under certain conditions
- 4 US Presidential and Congressional elections. Mr Reagan elected President by majorities of 51%-41% of the popular vote and 489-49 Electoral College votes. Republicans gain 12 Senate seats to capture the Senate. The Democrats retain control of the House of Representatives with a reduced majority
- 1st anniversary of the taking of the US hostages
- 6 President-elect Reagan gives first press conference
- 10 ITC Report on US motor industry says imports are not the major cause of industry's problems
- 10-11 US Deputy Secretary of State, Warren Christopher, visits Algiers to discuss terms for release of US hostages
- 12 96th Congress reassembles for lame-duck session
- US response to Iranian conditions delivered to Tehran
- 13 President Carter and Prime Minister Begin of Israel meet in Washington
- 14 President-elect Reagan appoints Edwin Meese as Counsellor, with Cabinet rank, and James Baker as White House Chief of Staff
- 17-21 President-elect Reagan visits Washington for talks with Congressional leaders, President Carter etc



November 1980 con't

- 19-21 Visit to the United States of Chancellor Schmidt of the Federal Republic of Germany
- 20 Meetings between President Carter and Chancellor Schmidt and President-elect Reagan and Chancellor Schmidt
- 20 Second Budget Resolution passed in House and Senate: provides for deficit of \$27.5 billion
- 21 75 die in Las Vegas hotel fire
- 24-26 Visit of The Rt Hon Marold Macmillan MP
- 24-28 Visit to Moscow of Senator Charles Percy, Chairman-designate of the Senate Foreign Relations Committee
- 30-7 December Visit to US of Mr John Biggs-Davison MP and Mr Brian Mawhinney MP to speak about Northern Ireland



December 1980

- 1-3 Deputy Secretary of State, Warren Christopher, visits Algiers for further discussions on US hostages in Iran
- 3-5 Visit of Mr John Moore MP (Parliamentary Under Secretary, Department of Energy)
- 3 President Carter warns USSR of "most negative consequences" in event of Soviet military intervention in Poland
- 4 Bodies of four murdered Americans (including 3 nuns) found in El Salvador
- 9 John Lennon murdered in New York
- 10-12 President-elect Reagan visits Washington
- 11 President-elect Reagan names 8 Cabinet appointments
- 11-12 US Secretary of State, Edmund Muskie, attends North Atlantic Council meeting in Brussels
- 12-13 US Secretary of State, Edmund Muskie, visits London for farewell meetings with the Prime Minister and Lord Carrington
- 16 96th Congress ends
- 16 General Alexander Haig nominated US Secretary of State
- US prime rate raised to record 21%
- 18 Delta Airlines buys Pratt and Whitney, not Rolls Royce, engines to power 60 Boeing 757 aircraft ordered for late 1984 onwards



December 1980 con't

- 19 Iran proposes new terms for release of US hostages
- 21 US Secretary of State, Edmund Muskie, describes new Iranian terms as unreasonable
- 22/23 President-elect Reagan names more members of his Cabinet
- 24 President-elect Reagan describes Iranian captors of US hostages as "nothing better than criminals"
- 27 President Carter breaks collarbone in skiing accident
- 28 Algerian intermediaries fly to Camp David for talks with President Carter about US hostages
- President-elect Reagan describes Iranian captors as "barbarians"
- 30 US Government gives Algerian intermediaries reformulated proposals for release of US hostages in Iran



bc: Consul-Generals in USA

EC posts: PARIS
BONN
BRUSSELS
COPEHNAGEN
DUBLIN
ROME
THE HAGUE
LUXEMBOURG
ATHENS

Private Secretary, No 10 Downing Street ✓

USA

GRS 1200
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DESKBY 270930Z
FM WASHINGTON 270315Z JAN 82
TO IMMEDIATE F C O
TELEGRAM NUMBER 236 OF 26 JANUARY 1982
INFO UKDEL OECD
INFO SAVING UKDEL NATO, PARIS, ROME, BONN, TOKYO, OTTAWA,
C G'S IN USA.

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12/27/1.*

MIPT: STATE OF THE UNION ADDRESS: ECONOMIC MEASURES.

FOLLOWING ARE MAIN POINTS MADE BY THE PRESIDENT ON ECONOMIC POLICY. THEY INCLUDE SOME FURTHER EXPLANATIONS ISSUED IN A WHITE HOUSE PRESS RELEASE.

NO TAX INCREASE TO SOLVE BUDGET PROBLEMS

PRESIDENT REAGAN MADE IT CLEAR THAT LARGER THAN ANTICIPATED DEFICITS - DUE TO THE RECESSION AND THE DECLINE IN PROJECTED INFLATION AND IN THE GROWTH OF GOVERNMENTAL RECEIPTS - WILL NOT BE SOLVED BY RESORTING TO RAISING TAX RATES. SPECIFICALLY, HE WILL PROPOSE NO NEW INCREASES IN EXISTING TAX RATES IN THE FY 1983 BUDGET TO BE RELEASED FEBRUARY 8.

ELIMINATION OF UNNECESSARY AND OBSOLETE TAX CODE PROVISIONS

THE ONLY TAX CHANGES PLANNED ARE OF THE TYPE ANNOUNCED LAST FALL: EFFORTS TO CLOSE LOOPHOLES. THE PRESIDENT RENEWED HIS SEPTEMBER PROPOSALS FOR TAX CODE REVISION AND ANNOUNCED THAT THE FY 1983 BUDGET WILL INCLUDE A PROPOSAL TO STRENGTHEN THE MINIMUM CORPORATE TAX TO ENSURE THAT ALL LARGER, ECONOMICALLY PROFITABLE CORPORATIONS PAY A MINIMUM FAIR SHARE OF FEDERAL TAXES.

OTHER MAJOR TAX CODE REVISIONS WILL INCLUDE THE REPEAL OF ENERGY TAX CREDITS FOR BUSINESS, LIMITATIONS OF TAX-EMEMPT INDUSTRIAL BONDS, CHANGES IN CODE PROVISIONS RELATING TO CONTRACT PROGRESS PAYMENTS AND CONSTRUCTION PERIOD INTEREST AND TAXES, AND ALL HEALTH INSURANCE.

WITH BROAD BASED TAX RATE REDUCTIONS, NEW SAVINGS AND INVESTMENT INCENTIVES AND A GENEROUS BUSINESS DEPRECIATION SYSTEM NOW IN PLACE, THESE SPECIAL TAX CODE PROVISIONS ARE NO LONGER NEEDED. THEIR ELIMINATION WILL INCREASE FEDERAL RECEIPTS BY AN ESTIMATED DOLLARS 24 BILLION IN THE 2-YEAR PERIOD OF FY 1983 AND 1984.

/FEDERAL OUTLAY

FEDERAL OUTLAY REDUCTIONS

PRESIDENT REAGAN INDICATED THERE WILL BE NO RETREAT FROM THE OVERRIDING FISCAL POLICY IMPERATIVE OF REDUCING THE GROWTH RATE OF FEDERAL SPENDING. THE FY 1983 BUDGET WILL INCLUDE DOLLARS 63 BILLION IN NEW ENTITLEMENT REFORMS OVER THE NEXT FOUR YEARS AND SUBSTANTIAL REDUCTIONS IN DISCRETIONARY PROGRAMS. ALSO, THE PRESIDENT WILL PROPOSE TENS OF BILLIONS IN ADDITIONAL SAVINGS THROUGH MANAGEMENT INITIATIVES OVER THE NEXT THREE YEARS - INCLUDING IMPROVED DEBT COLLECTION, SURPLUS PROPERTY SALES, ACCELERATED SALES OF OFF-SHORE OIL AND GAS LEASES, AND STRENGTHENED FRAUD, WASTE AND ABUSE PREVENTION EFFORTS.

OVERALL, THE GROWTH RATE OF FEDERAL SPENDING WILL DECLINE FROM AN AVERAGE OF 17 PERCENT A YEAR FROM FY 1979 TO FY 1981, TO 9 PERCENT IN THE RECESSION BUDGET OF FY 1982, TO ABOUT 5 PERCENT IN THE FY 1983-84 BUDGET.

REDUCTION OF THE FEDERAL DEFICIT

THE PRESIDENT REPEATED HIS COMMITMENT TO REDUCING FEDERAL DEFICITS AND BORROWING BY MEANS OF RENEWED ECONOMIC GROWTH, CONTINUED BUDGET REDUCTIONS, AND ELIMINATION OF TAX ABUSES AND OBSOLETE PROVISIONS.

THE FY 1982 DEFICIT WILL BE UNDER DOLLARS 100 BILLION. ITS SIZE IS LARGELY DUE TO THE CURRENT RECESSION AND CONSEQUENT REDUCTION IN TAX RECEIPTS AND INCREASED UNEMPLOYMENT-RELATED PAYMENTS. THE FY 1982 DEFICIT IS TOO LARGE BUT, NEVERTHELESS, AS A SHARE OF GNP IT IS SMALLER THAN THE RECESSION DEFICIT OF FY 1976.

THE DEFICIT WILL DECLINE EACH YEAR AFTER THE 1982 RECESSION PEAK, AS THE ECONOMIC RECOVERY TAKES HOLD AND BUDGET SAVINGS MEASURES ARE IMPLEMENTED. FULL DETAILS ON ADDITIONAL BUDGET SAVINGS PROPOSALS WILL BE TRANSMITTED WITH THE PRESIDENT'S BUDGET FOR FISCAL YEAR 1983 ON FEBRUARY 8.

A MAJOR NEW PARTNERSHIP WITH STATES AND LOCAL COMMUNITIES

PRESIDENT REAGAN HAS PROPOSED A MAJOR RESHAPING OF THE FISCAL RELATIONSHIP BETWEEN THE FEDERAL GOVERNMENT AND THE STATES. THE PROGRAM, INVOLVING SOME DOLLARS 47 BILLION IN FEDERAL GRANTS-IN-AID, IS INTENDED TO SORT OUT THE RESPONSIBILITIES PROPERLY ASSIGNED TO EACH GOVERNMENTAL LEVEL, RETURN TO THE STATES BOTH THOSE RESPONSIBILITIES BETTER HANDLED BY THE STATES AND THE REVENUE SOURCES NEEDED TO FUND THEM, AND ACHIEVE ECONOMIES FOR THE STATES AND THE FEDERAL GOVERNMENT.

THE PLAN HAS TWO MAJOR COMPONENTS:

(1) A "SWAP" OF MEDICAID TO THE FEDERAL GOVERNMENT FOR FULL FUNDING IN RETURN FOR WHICH THE STATES WOULD ASSUME RESPONSIBILITY FOR THE FOOD STAMP AND AFDC WELFARE PROGRAMS.

(2) A "TURNBACK" OF RESPONSIBILITY TO THE STATES FOR OVER 40 FEDERAL PROGRAMS IN EDUCATION, COMMUNITY DEVELOPMENT, TRANSPORTATION AND SOCIAL SERVICES ALONG WITH FUNDS FROM A DOLLARS 28 BILLION FEDERAL TRUST FUND TO BE FINANCED BY EXISTING FEDERAL EXCISE TAXES. THE TURNBACK WILL BE VOLUNTARY THROUGH FY '87, PERMANENT AFTER THAT.

THE PROGRAM WILL BE PHASED IN OVER 8 YEARS, STARTING IN FY 1984. BY 1991, STATE AND LOCAL AUTHORITIES WILL HAVE ASSUMED RESPONSIBILITY FOR OVER 40 PROGRAMS NOW ADMINISTERED BY THE FEDERAL GOVERNMENT. THE STATE AND LOCAL GOVERNMENTS WILL ALSO HAVE RECEIVED EQUIVALENT REVENUE RESOURCES THROUGH THE ELIMINATION OF MAJOR FEDERAL EXCISE TAXES (ALCOHOL, TOBACCO, TELEPHONE AND MOTOR FUEL EXCEPT FOR A 2 CENTS TAX PER GALLON RETAINED BY THE FEDERAL GOVERNMENT) AND THE PHASE-OUT OF THE FEDERAL WINDFALL PROFIT TAX ON DECONTROLLED OIL.

THE PROGRAM CONTEMPLATES NO NET FINANCIAL GAIN OR LOSS TO THE STATES AND INCLUDES PROTECTIONS IN SUCH AREAS AS PASS-THROUGH OF FUNDS TO LOCAL GOVERNMENTS, CIVIL RIGHTS AND ADEQUATE WELFARE STANDARDS.

ENTERPRISE ZONES

PRESIDENT REAGAN HAS PROPOSED A PLAN FOR CREATION OF ENTERPRISE ZONES AS AN EXPERIMENTAL FREE-MARKET PROGRAM FOR DEALING WITH SOME ASPECTS OF URBAN PROBLEMS. THE PURPOSE OF THE EXPERIMENT IS TO EXPLORE NEW WAYS:

- TO CREATE JOBS IN THE NATION'S DEPRESSED AREAS, PARTICULARLY JOBS FOR DISADVANTAGED WORKERS;
- TO REDEVELOP AND REVITALIZE THE GEOGRAPHIC ZONE AREAS THEMSELVES.

THE PRESIDENT INTENDS TO SUBMIT HIS PLAN FOR ENTERPRISE ZONES TO THE CONGRESS IN THE NEXT SEVERAL WEEKS.

FCO PLEASE ADVANCE TO PS/SIR K. COUZENS (TREASURY), BOTTRILL (TREASURY) AND TO WATSON (BANK OF ENGLAND).

FCO PASS SAVING TO UKDEL NATO, PARIS, ROME, BONN, TOKYO, OTTAWA.

HENDERSON

[ADVANCED/REPEATED AS REQUESTED]

FCO/WHITEHALL
NAD

GR 650
UNCLASSIFIED
DESKBY 270930Z
FM WASHINGTON 270310Z JAN 82
TO IMMEDIATE F C O
TELEGRAM NUMBER 235 OF 26 JANUARY 1982
INFO UKDEL NATO, UKDEL OECD, PARIS, ROME, BONN, TOKYO, OTTAWA,
INFO SAVING C G'S IN USA, MOSCOW AND WARSAW.

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11.

PRESIDENT REAGAN'S STATE OF THE UNION ADDRESS.

PRESIDENT REAGAN DELIVERED THE ANNUAL STATE OF THE UNION ADDRESS TO CONGRESS THIS EVENING. THE ADDRESS WAS BROADCAST LIVE TO THE NATION. FOLLOWING WERE THE MAIN POINTS.

(1) DOMESTIC.

AFTER OUTLINING THE PROBLEMS WHICH HE HAD INHERITED, THE PRESIDENT REAFFIRMED HIS FAITH IN HIS ECONOMIC RECOVERY PROGRAMME WHICH, HE SAID, WOULD PULL THE ECONOMY OUT OF ITS SLUMP AND PUT THE NATION ON THE ROAD TO PROSPERITY AND STABLE GROWTH BY THE LATTER HALF OF THIS YEAR. ALTHOUGH THE ADMINISTRATION'S FORECASTS WOULD SHOW MAJOR DEFICITS, ALBEIT STARTING AT LESS THAN 100 BILLION DOLLARS, RAISING TAXES WAS NOT THE ANSWER. HE WOULD SEEK NO TAX INCREASES THIS YEAR AND HAD NO INTENTION OF RETREATING FROM HIS PROGRAMME OF BASIC TAX RELIEF. THE WAY TO REDUCE THE DEFICIT WAS TO CUT OUT MORE NON-ESSENTIAL GOVERNMENT SPENDING. SAVINGS WOULD BE MADE IN THE FOLLOWING WAYS.

(A) DISMANTLING THE DEPARTMENTS OF ENERGY AND EDUCATION.

(B) ELIMINATION OF INEFFECTIVE SUBSIDIES FOR BUSINESS.

(C) SAVINGS IN ENTITLEMENT PROGRAMMES TOTALLING SOME DOLLARS 63 BILLION OVER FOUR YEARS.

(D) PLUGGING UNWARRANTED TAX LOOPHOLES AND STRENGTHENING THE LAW WHICH REQUIRES ALL LARGE CORPORATIONS TO PAY A MINIMUM TAX.

(E) THE RETURN OF SOME DOLLARS 47 BILLION IN FEDERAL PROGRAMMES TO STATE AND LOCAL GOVERNMENT, TOGETHER WITH THE MEANS TO FINANCE THEM AND A TRANSITION PERIOD OF NEARLY TEN YEARS TO AVOID UNNECESSARY DISRUPTION. STARTING IN FY84 THE FEDERAL GOVERNMENT WOULD ASSUME FULL RESPONSIBILITY FOR THE COST OF THE MEDICAID PROGRAMME FOR THE POOR. AS A PART OF A FINANCIALLY EQUAL SWAP, INDIVIDUAL STATES WOULD TAKE RESPONSIBILITY FOR AID TO FAMILIES WITH DEPENDENT CHILDREN AND FOR FOOD STAMPS. IN 1984 THE GOVERNMENT WOULD STEP UP A GRASS ROOTS TRUST FUND TO BE FINANCED TO THE TUNE OF DOLLARS 28 BILLION A YEAR FROM EXCISE TAXES AND DESIGNED TO HELP STATES FINANCE THE TRANSITIONAL PERIOD UP TO 1988 WHEN THEY WOULD ASSUME COMPLETE CONTROL OF OVER FORTY FEDERAL GRANT PROGRAMMES.

2. IN A CONCLUDING PASSAGE ON DOMESTIC POLICY THE PRESIDENT SAID THAT THIS TRANSFER OF RESPONSIBILITY FROM STATE TO FEDERAL LEVEL WOULD NOT UNDERMINE THE DISADVANTAGED. THERE WOULD BE NO BACKSLIDING OR SLOWING DOWN ON CIVIL RIGHTS ISSUES.

(II) FOREIGN POLICY.

(A) THE ADMINISTRATION'S CARIBBEAN BASIN PROGRAMME WOULD LEAD TO A MORE SECURE LIFE FOR AMERICA'S NEIGHBOURS TO THE SOUTH. THE U.S. WOULD ACT WITH FIRMNESS TOWARDS THOSE WHO WOULD EXPORT TERRORISM AND SUBVERSION IN THE CARIBBEAN AND ELSEWHERE, ESPECIALLY CUBA AND LIBYA.

(B) SANCTIONS AGAINST THE MILITARY DICTATORSHIP THAT HAD ATTEMPTED TO CRUSH HUMAN RIGHTS IN POLAND - AND AGAINST THE SOVIET REGIME BEHIND THAT MILITARY DICTATORSHIP- CLEARLY DEMONSTRATED TO THE WORLD THAT AMERICA WOULD NOT CONDUCT BUSINESS AS USUAL WITH THE FORCES OF OPPRESSION.

(C) IF EVENTS IN POLAND CONTINUED TO DETERIORATE, FURTHER MEASURES WOULD FOLLOW.

(D) ALL PEACE LOVING-PEOPLES SHOULD SUPPORT THE 30 JANUARY DAY OF SOLIDARITY WITH POLAND AND THE EUROPEAN PARLIAMENT'S CALL FOR A DAY OF SUPPORT FOR AFGHANISTAN ON 21 MARCH.

(E) THE U.S. WAS WORKING FOR A REDUCTION OF ARMS AND MILITARY ACTIVITY EG IN THE INF TALKS. THE U.S. WOULD NEGOTIATE FROM A POSITION OF STRENGTH BASED ON THE REBUILDING OF HER DEFENCES.

(F) FOREIGN POLICY MUST BE ROOTED IN REALISM, THE STARTING POINT OF WHICH WAS RECOGNITION OF WHAT THE SOVIET EMPIRE WAS ABOUT. THE PRESIDENT QUOTED CHURCHILL TO THE EFFECT THAT THE SOVIET UNION RESPECTED ONLY STRENGTH AND RESOLVE IN OTHER NATIONS.

FCO PLEASE ADVANCE TO ERD: PS/SIR K. COUZENS (TREASURY).

FCO PASS SAVING TO MOSCOW AND WARSAW.

HENDERSON

[ADVANCED/REPEATED AS REQUESTED]

FCO/WHITEHALL

NAD

GR 520

CONFIDENTIAL

FM WASHINGTON 210136Z JAN 82

TO PRIORITY FCO

TELEGRAM NUMBER 179 OF 20 JANUARY

INFO ROUTINE UKMIS NEW YORK

INFO SAVING PARIS BONN UKDEL NATO MOSCOW OTTAWA

CG'S USA

MY TELNO 60: NATIONAL SECURITY ADVISER

1. WILLIAM CLARK, THE NATIONAL SECURITY ADVISER, HAS TODAY APPOINTED AS HIS DEPUTY, ROBERT C MCFARLANE WHO, UNTIL TODAY WAS COUNSELLOR AT THE STATE DEPARTMENT. ADMIRAL NANCE THE PREVIOUS DEPUTY AND ACTING NATIONAL SECURITY ADVISER DURING THE WEEKS LEADING TO RICHARD ALLEN'S DEMISE, WILL REMAIN ON THE STAFF WITH RESPONSIBILITY FOR SPECIAL PROJECTS, AS YET UNSPECIFIED.

2. MCFARLANE, WHO IS 44, IS A FORMER US MARINE COLONEL WHO SERVED AS KISSINGER'S MILITARY ASSISTANT IN THE WHITE HOUSE AND SUBSEQUENTLY ON THE NSC STAFF UNDER BOTH THE FORD AND NIXON ADMINISTRATIONS. MCFARLANE WAS APPOINTED COUNSELLOR AT THE STATE DEPARTMENT IN FEBRUARY LAST YEAR AND HAS BEEN HAIG'S CLOSEST AND MOST TRUSTED ASSISTANT. HE WAS SENT TO ISRAEL IN THE AFTERMATH OF THE ISRAELI BOMBING OF THE IRAQI NUCLEAR REACTOR TO TRY TO ESTABLISH AN UNDERSTANDING WITH THE ISRAELIS ON THE FUTURE USE OF AMERICAN MILITARY EQUIPMENT. HE HAS BEEN CLOSELY ASSOCIATED WITH MOST OF THE MAJOR ADMINISTRATION'S POLICY DECISIONS EG ON POLAND. MCFARLANE'S APPOINTMENT REFLECTS CLARK'S DESIRE TO HAVE A THOROUGHLY SOUND AND KNOWLEDGEABLE DEPUTY WITH FOREIGN POLICY EXPERIENCE WHO, BECAUSE OF HIS RELATIONS WITH HAIG, WILL MINIMISE FRICTIONS BETWEEN THE STATE DEPARTMENT AND THE NSC.

3. CLARK HAS ALSO APPOINTED, ON A TEMPORARY BASIS, THE CONSERVATIVE WRITER BILL BUCKLEY, THE VETERAN FORMER DIPLOMAT AND CONGRESSWOMAN CLARE BOOTHE LUCE, AND FORMER AIR FORCE SECRETARY THOMAS REED AS CONSULTANTS. THEY ARE TO SPEND A MONTH REVIEWING NSC OPERATIONS. IN THE MEANTIME, THE WHITE HOUSE HAS, FOR THE FIRST TIME, LAID DOWN IN PUBLIC HOW THE NSC COORDINATING MACHINERY WILL WORK. THE STRUCTURE (FULL TEXT BY BAG) IS NOT SUBSTANTIALLY CHANGED FROM THAT INTRODUCED WHEN RICHARD ALLEN BECAME NATIONAL SECURITY ADVISER. THERE ARE THREE SENIOR INTERAGENCY GROUPS (SIG'S) DEALING WITH FOREIGN POLICY, DEFENCE POLICY AND INTELLIGENCE.

CONFIDENTIAL

THE GROUPS ARE CHAIRED RESPECTIVELY BY STOESSEL, CARLUCCI AND CASEY AND STAFFED BY THE RELEVANT DEPARTMENTS. THE PURPOSE OF THESE GROUPS IS TO TRY TO RESOLVE AS MANY POLICY ISSUES AS POSSIBLE AT A LEVEL BELOW THAT OF THE FULL NSC WHICH IS CHAIRED BY THE PRESIDENT AND ATTENDED BY CABINET MEMBERS. THE COMPOSITION AND PROCEDURES OF THESE SENIOR INTERAGENCY GROUPS AS LAID DOWN IN THE NEW WHITE HOUSE DIRECTIVE GIVE CONSIDERABLE AUTHORITY AND RESPONSIBILITY TO THE INDIVIDUAL DEPARTMENTS, BY CONTRAST TO THE PROMINENT ROLE TAKEN BY THE NSC UNDER BRZEZINSKI.

4. ALL THESE MOVES, STARTING WITH CLARK'S APPOINTMENT, ARE INDICATIVE OF A MAJOR FRESH ATTEMPT TO AVOID THE DAMAGING CONFLICTS OF INTEREST AND ADVICE WHICH CHARACTERISED THE CARTER ADMINISTRATION, WHILE CORRECTING THE OBVIOUS INADEQUACY OF THE NSC UNDER ALLEN. MCFARLANE SHOULD BE A VERY IMPORTANT ASSET IN THIS RESPECT.

FCO PASS SAVING INFO TO PARIS BONN UKDEL NATO MOSCOW OTTAWA

HENDERSON

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[REPEATED AS REQUESTED]

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Mr Luce

Cabinet Office

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CONFIDENTIAL

FM WASHINGTON 042359Z JAN 82

TO IMMEDIATE F C O

TELEGRAM NUMBER 11 OF 4 JANUARY 1982

INFO UKMIS NEW YORK, PARIS AND BONN,
INFO SAVING C.G.'S USA, UKDEL NATO, MOSCOW.

PRESIDENT REAGAN'S NATIONAL SECURITY ADVISER.

FOLLOWING SEVERAL DAYS OF AUTHORITATIVE PRESS SPECULATION THAT HE WAS TO BE REPLACED AS NATIONAL SECURITY ADVISER, RICHARD ALLEN TODAY RESIGNED. A STATEMENT FROM THE WHITE HOUSE SAID THAT ALLEN AND THE PRESIDENT HAD AGREED THAT, IN VIEW OF RECENT CONTROVERSY, IT WOULD BE BETTER IF ALLEN LEFT HIS JOB. FOR THE TIME BEING, AT LEAST, HE WILL SERVE ON THE PRESIDENT'S FOREIGN INTELLIGENCE ADVISORY BOARD. THIS IS PRESUMABLY A DEVICE TO LET HIM DOWN GENTLY; THE BOARD MEETS ONLY RARELY AND HAS HAD LITTLE INFLUENCE.

2. ALLEN HAS BEEN REPLACED BY DEPUTY SECRETARY WILLIAM CLARK. UNLIKE ALLEN, HE WILL HAVE DAILY, DIRECT ACCESS TO THE PRESIDENT. IN OTHER WORDS, THE JOB OF NATIONAL SECURITY ADVISER HAS BEEN RESTORED TO THE PROMINENCE IT ENJOYED UNDER KISSINGER AND BRZEZINSKI EVEN THOUGH THE NEW INCUMBENT LACKS THEIR STANDING ON FOREIGN POLICY ISSUES.

3. NO SUCCESSOR TO CLARK AT THE STATE DEPARTMENT HAS YET BEEN ANNOUNCED.

FCO PASS SAVING UKDEL NATO AND MOSCOW.

HENDERSON

Prime Minister
USA
24/12

GRS 430

RESTRICTED

FM WASHINGTON 240105Z DEC 81

TO ROUTINE F C O

TELEGRAM NUMBER 3914 OF 23 DECEMBER 1981

INFO UKMIS NEW YORK

INFO SAVING CGS USA.

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THE REAGAN PRESIDENCY: THE FIRST YEAR.

1. THE WHITE HOUSE HAS, WITH A GREAT FLOURISH, PUBLISHED A 128 PAGE REVIEW OF REAGAN'S FIRST YEAR IN OFFICE. IT IS AN UNUSUAL DOCUMENT.

2. AFTER WHAT THE WASHINGTON POST CALLS A DICKENSIAN OPENING (''IT WAS A TIME OF CRISIS AND RENEWAL. NOT SINCE THE OPENING DAYS OF ROOSEVELT'S NEW DEAL HAD AN INCOMING PRESIDENT BEEN FACED WITH SUCH A BROAD ARRAY OF CHALLENGES''), THE DOCUMENT QUICKLY LAPSES INTO ADVENTURE-BOOK STYLE (''BELIEVING THE AMERICAN PEOPLE HAD SENT HIM TO WASHINGTON TO END THE DECADES OF GOVERNMENT MIS-MANAGEMENT, PRESIDENT REAGAN IMMEDIATELY BEGAN TO WORK CHANGES THAT WOULD RETURN THE COUNTRY TO THE POLICIES THAT HAD ONCE MADE IT GREAT''). THE WHOLE WORK IS PANGLOSSIAN IN ITS OPTIMISM AND PRAVDA-LIKE IN ITS SYCOPHANCY. TIME AND AGAIN, THE PRESIDENT SNATCHES VICTORY FROM THE JAWS OF DEFEAT. SUCH MINOR REVERSALS AS THE LOOMING BUDGET DEFICIT (POTENTIALLY THE LARGEST IN U.S. HISTORY) ARE NOWHERE MENTIONED. SWINGING CUTS IN HEALTH CARE PROGRAMMES ARE DISMISSED AS CHANGES WHICH WILL HELP BRING ABOUT MORE COST-EFFECTIVE HEALTH CARE FOR THE ELDERLY.

3. THE PASSAGES ON FOREIGN POLICY ARE NO LESS EGREGIOUS. REAGAN HAS DRIVEN BACK THE SOVIET MENACE, AVERTED THE THREAT OF WAR IN THE MIDDLE EAST AND REASSERTED U.S. LEADERSHIP OF THE WESTERN ALLIANCE. UNAIDED, HE HAS BROUGHT NEW LIFE TO THE NAMIBIAN TALKS, WHICH HAD ALL BUT COLLAPSED. MORE IRKSOME IS THE CONTENTION THAT, BY ENSUREING EUROPEAN INVOLVEMENT IN THE MULTI-NATIONAL FORCE IN SINAI, AMERICA HAS BROUGHT THE EUROPEANS INTO THE CAMP DAVID FRAMEWORK.

RESTRICTED

/ 4. A PASSAGE

RESTRICTED

4. A PASSAGE ON THE UNITED NATIONS, WHICH BEARS ALL THE SIGNS OF HAVING BEEN DRAFTED BY MRS KIRKPATRICK, IS A LAUNDRY-LIST OF UN DIRTY WASHING. IT MODESTLY ACKNOWLEDGES THAT IN 1981 IT WAS NOT POSSIBLE TO REVERSE MOST OF THE ADVERSE TRENDS. ONE OF THE NEW NEGATIVE DEVELOPMENTS AT THE UN NOTED IS THE "PROGRESSIVE ISOLATION OF THE U.S. FROM HER EUROPEAN ALLIES, WHO NOW REACH VIRTUALLY ALL DECISIONS AS MEMBERS OF THE EC WITHOUT CONSULTATION WITH THE U.S."

5. THE PRESS ARE CALLING THIS DOCUMENT REAGAN'S FIRST REPORT CARD. IT IS SO BIZARRE, AND SO MUCH A REFLECTION OF THE BYZANTINE NATURE OF AMERICAN GOVERNMENT THAT IT WOULD BE A MISTAKE FOR US TO TAKE IT TOO MUCH TO HEART AS A SERIOUS DOCUMENT. I RECOMMEND THAT WE TREAT IT, AS THE AMERICAN PRESS ARE DOING, AS A PIECE OF PURE POLITICAL BRAGGADOCIO. ONE JOURNALIST TO WHOM WE HAVE SPOKEN HAS COMPARED IT TO THE WORKS OF KIM I I SUNG.

HENDERSON

FCO/WHITEHALL

NAD

[NOT ADVANCED]

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RESTRICTED

FILE

VLB

USA

16 November 1981

Mr. Haig

The Prime Minister has seen and taken note of your letter to me of 13 November and its attachments.

MICHAEL ALEXANDER

B. J. P. Fall, Esq.,
Foreign and Commonwealth Office.

HL

GPS 610

RESTRICTED

FM WASHINGTON 132355Z

TO ROUTINE F C O

TELNO 3430 OF 13 NOVEMBER 1981,

INFO SAVING EC POSTS, UKMIS NEW YORK, ATLANTA, CHICAGO, DALLAS,
HOUSTON, SAN FRANCISCO, CG NEW YORK, BOSTON, CLEVELAND, DETROIT,
LOS ANGELES, SEATTLE.

MY TELNO 3408: DAVID STOCKMAN.

1. STOCKMAN AND THE PRESIDENT MET ALONE YESTERDAY TO REVIEW THE ARTICLE IN THE ATLANTIC MONTHLY WHICH REVEALED STOCKMAN'S SCEPTICISM ABOUT THE ADMINISTRATION'S ECONOMIC PROGRAMME. THE WHITE HOUSE SUBSEQUENTLY ISSUED A STATEMENT SAYING THAT STOCKMAN HAD ACKNOWLEDGED THAT HE HAD MADE A MISTAKE AND HAD APOLOGISED TO THE PRESIDENT FOR WHAT HE RECOGNISED AS A GRIEVOUS ERROR. THE STATEMENT ADDED THAT THE PRESIDENT HAD EXPRESSED HIS GRAVE CONCERN AND DISAPPOINTMENT, IN PARTICULAR AT THE SUGGESTION THAT HIS ADMINISTRATION OR ANY MEMBER OF IT, COULD DELIBERATELY MISLEAD THE AMERICAN PUBLIC. THE PRESIDENT STATED THAT HE WOULD NOT TOLERATE SUCH BEHAVIOUR. MR STOCKMAN HAD OFFERED HIS RESIGNATION BUT, FOLLOWING FURTHER DISCUSSION, THE PRESIDENT HAD DECIDED NOT TO ACCEPT IT.

2. IN A SUBSEQUENT PRESS CONFERENCE, AT WHICH HE SEEMED CLOSE TO TEARS, STOCKMAN SAID THAT HE WOULD NOT HAVE WORKED 16 HOURS A DAY FOR A YEAR IF HE HAD NOT BELIEVED IN THE PRESIDENT AND HIS POLICIES. HE ACKNOWLEDGED THAT HIS POOR JUDGMENT AND LOOSE TALK HAD DONE THE PRESIDENT AND HIS PROGRAMME A SERIOUS DISSERVICE AND HAD SPREAD AN IMPRESSION THAT WAS UTTERLY FALSE. HE WAS STAYING ON BECAUSE HE BELIEVED THAT THE PRESIDENT HAD CHARTED A SOUND, CONSTRUCTIVE COURSE AND HE WAS GRATEFUL TO BE GIVEN A SECOND CHANCE. IN SUBSEQUENT QUESTIONS AND ANSWERS, STOCKMAN DID NOT ATTEMPT TO DENY OR DISGUISE THAT HE HAD MADE THE STATEMENTS ATTRIBUTED TO HIM. (SINCE ALL THE INTERVIEWS WERE OPENLY TAPED BY THE JOURNALIST IT WOULD PRESUMABLY BE IMPOSSIBLE TO DO SO.) AT ONE POINT STOCKMAN REAFFIRMED THE UNDERLYING DISAGREEMENT BETWEEN HIMSELF AND SOME OTHER MEMBERS OF THE ADMINISTRATION WHEN HE SAID: "IT WAS WELL-KNOWN I HAVE STRONGLY FELT THAT IF WE ARE TO KEEP THE BUDGET ON TRACK WE WOULD HAVE TO DEAL WITH THE MATTERS OF ENTITLEMENT AND SOCIAL SECURITY".

3. INITIAL PRESS COMMENT HAS SUGGESTED (A) THAT STOCKMAN'S INDISCRETIONS HAVE REVEALED THE INADEQUACY OF THE ADMINISTRATION'S ECONOMIC PROGRAMME (NEW YORK TIMES: THE REAGAN ADMINISTRATION'S VAUNTED ECONOMIC POLICY CANNOT WORK: THE ADMINISTRATION KNOWS THAT: AND YET THE ADMINISTRATION KEEPS ON FLOGGING IT AS JUST THE MEDICINE AMERICA NEEDS): (B) RESPECT FOR STOCKMAN'S INTELLECTUAL HONESTY (WASHINGTON POST: THE VOICE IS THAT OF A MAN ARGUING WITH

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HIMSELF, WORRYING AT AN INTRACTABLE JOB AND SAYING MORE IN PRIVATE THAT HE WOULD CARE TO SAY IN PUBLIC): AND (C) RECOGNITION THAT, WHILE THE ADMINISTRATION CAN ILL AFFORD TO LOSE SOMEONE OF STOCKMAN'S BRILLIANCE, HIS EFFECTIVENESS - ESPECIALLY WITH CONGRESSMEN - HAS BEEN SERIOUSLY DAMAGED (BALTIMORE SUN: STOCKMAN MAY HAVE CHANGED FROM ASSET TO LIABILITY HE MAY HAVE TO GO - A FLEETING STAR IN THE WASHINGTON FIRMAMENT).

4. STOCKMAN HAS NOT TRIED TO EXCUSE HIS LOOSE TALK AS A BREACH OF FAITH ON THE PART OF THE JOURNALIST INVOLVED (GRIEGER OF THE WASHINGTON POST). HE HAS SAID THAT HE ACCEPTS THAT THE PUBLICATION OF HIS PRIVATE THOUGHTS RESULTED FROM "JUST AN HONEST, BUT RATHER LARGE, MISUNDERSTANDING".

5. THE FULL RAMIFICATIONS OF THIS AFFAIR CANNOT YET BE DISCERNED, BUT IT SEEMS BOUND TO HAVE AN ADVERSE IMPACT ON THE PRESIDENT'S OWN STANDING AND IN PARTICULAR ON HIS ABILITY TO ENROLL POPULAR SUPPORT FOR HIS ECONOMIC PROGRAMME. I WILL SEND AN ASSESSMENT WHEN THE DUST HAS SETTLED. BUT IT MAY TAKE QUITE A TIME AS THE DEMOCRATS WILL TAKE ADVANTAGE OF THIS HEAVEN-SENT OPPORTUNITY TO KEEP THE STORM GOING.

FCO PASS INFO SAVING TO :
ATHENS, BONN, BRUSSELS, COPENHAGEN, DUBLIN, LUXEMBOURG, PARIS,
ROME, THE HAGUE, UKREP BRUSSELS.

HENDERSON

[PASSED SAVING AS REQUESTED]
[THIS TELEGRAM WAS NOT ADVANCED]

FCO/WHITEHALL

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Foreign and Commonwealth Office

London SW1A 2AH

13 November 1981

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Prime Minister (2)

Dear Richard,

And

//

Lord Carrington thought that the Prime Minister would wish to see the enclosed copies of Washington telegram nos 3409 and 3410, which are being held here on a very restricted basis. Sir N Henderson's talk with Haig has been helpful although it is very difficult to see how anyone could have attributed to Lord Carrington the thought that 'Haig says whatever the person he is talking to wants to hear'. This is certainly not a criticism that Lord Carrington has ever voiced, or indeed thought, of Haig.

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Yours ever,
[Signature]

(B J P Fall)
Private Secretary

M O'D B Alexander Esq
10 Downing Street

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FM WASHINGTON 130058Z NOV 81

TO IMMEDIATE FCO

TELEGRAM NUMBER 3409 OF 12 NOVEMBER 1981

FOLLOWING PERSONAL FOR SECRETARY OF STATE

1. WHEN I SAW HAIG TODAY I EXPLAINED THAT I HAD RETURNED TO WASHINGTON AHEAD OF TIME TO HAVE A PERSONAL WORD WITH HIM ABOUT HIS RELATIONS WITH YOU. SEEN FROM THE BRITISH SIDE, IT LOOKED, ON THE BASIS OF A GOOD DEAL OF EVIDENCE, JOURNALISTIC AND SPOKEN, AS THOUGH HE HAD SOME PERSONAL QUARREL WITH YOU AND THAT THIS WAS IMPAIRING MATTERS OF NATIONAL INTEREST AFFECTING BOTH COUNTRIES. YOU YOURSELF WERE CONCERNED ABOUT THIS, INDEED UPSET, BOTH BECAUSE YOU KNEW OF NO GOOD GROUNDS FOR IT AND BECAUSE OF THE HARM IT WAS DOING TO WHAT WE WERE BOTH TRYING TO ACHIEVE. WE HAD DIFFERENCES OF VIEW PARTICULARLY ON THE MIDDLE EAST, BUT THE SORT OF COMMENT OF A PERSONAL KIND THAT WAS EMANATING FROM THE HIGHEST SOURCES IN THE STATE DEPARTMENT AND APPEARING IN THE PRESS WENT FAR BEYOND ANYTHING THAT SUCH DIFFERENCES COULD WARRANT OR EXPLAIN.

2. HAIG SAID THAT HE HAD NO PERSONAL PROBLEM WHATEVER WITH YOU. FROM THE START HE HAD ATTACHED THE GREATEST IMPORTANCE TO WORKING CLOSELY WITH YOU. YOU HAD GREATLY HELPED ON ALL THE MAIN PROBLEMS ALL OVER THE WORLD. NEITHER OF US COULD AFFORD THE LUXURY OF A QUARREL. HE HAD TO ADMIT THAT SOMETHING HE HAD HEARD FROM A EUROPEAN SOURCE A FEW WEEKS AGO HAD ANNOYED HIM. THIS PERSON HAD COME TO HIM PRIVATELY AND TOLD HIM THAT HE HAD HEARD YOU SAY IN SOME GATHERING IN EUROPE THAT QUOTE HAIG SAYS WHATEVER THE PERSON HE IS TALKING TO WANTS TO HEAR UNQUOTE. THIS REPORT HAD BEEN GIVEN HIM SHORTLY BEFORE HE MET YOU IN THE TENT AT CAIRO AFTER SADAT'S FUNERAL AND HE HAD MADE A REFERENCE TO IT WHEN SPEAKING TO YOU TO SHOW HIS DISPLEASURE. HE REALISED THAT YOU, LIKE HE, WENT IN FOR A GOOD DEAL OF BANTER AND JOKING, BUT HE HAD NOT LIKED THIS STORY. I INTERRUPTED THAT I GATHERED CONDITIONS IN THAT TENT HAD NOT BEEN IDEAL FOR CONVERSATION. (I DID NOT THINK I COULD PRESS HIM TO REVEAL WHO HIS EUROPEAN SOURCE WAS.)

3. HE ALSO REPEATED LATER, WHAT WE ALREADY KNOW, THAT THE FRENCH AND ITALIANS HAD BOTH TOLD HIM THAT YOU HAD TRIED TO DISSUADE THEM FROM TAKING PART IN THE SINAI MFO. IN COMMENTING ON THIS I THINK I MIGHT HAVE PUT THE RECORD STRAIGHT IN HAIG'S MIND: BUT I WILL NOT BURDEN YOU WITH EVERYTHING I SAID.

4. WE HAD A DISCUSSION ABOUT THE MFO. HE SAID THAT VELIOTES HAD RETURNED FROM LONDON CONVINCED THAT HE HAD BEEN GIVEN A FULL ACCOUNT OF THE PROPOSALS OF THE FOUR. FROM HAIG'S POINT OF VIEW IT SOUNDED SATISFACTORY. IT HAD THEREFORE BEEN A TERRIBLE SURPRISE WHEN WE HAD THEN GIVEN HIM THE FULL TEXT WHICH WOULD HAVE SENT THE ISRAELIS OVER THE EDGE. I SAID THAT SO FAR AS YOU WERE CONCERNED YOU CERTAINLY THOUGHT THAT VELIOTES HAD BEEN GIVEN THE FULL PICTURE. INCIDENTALLY THERE WAS NO ACRIMONY IN HAIG'S DISCUSSION OF THIS MATTER WITH ME, AND I WOULD NOT FAVOUR REVERTING TO THE POINT OF WHETHER OR NOT VELIOTES WAS PROPERLY INFORMED. IN GENERAL HAIG SEEMED PERFECTLY CALM ABOUT THE MFO BUSINESS AND HOW IT IS PROCEEDING.

5. HAIG SAID THAT THE ONLY OTHER PERSONAL THING HE HAD OBJECTED TO WAS THE STORY THAT HAD REACHED HIM FROM EUROPEAN SOURCES THAT YOU WERE MAKING FLIPPANT AND SCATHING COMMENTS ABOUT THE PEACE PROCESS. BUT HE DID NOT ELABORATE ON THIS. WHAT HE DID PROCEED TO EXPAND UPON WAS HIS WORRY ABOUT YOUR CONCERN.

6. HE ASKED IF THERE WAS ANYTHING HE COULD DO ABOUT IT. HE ATTACHED THE GREATEST IMPORTANCE TO WORKING HARMONIOUSLY WITH YOU. QUOTE WE CANNOT GET ALONG ALONE UNQUOTE. I HAVE HIM THE OBVIOUS QUOTE PROOF OF THE PUDDING UNQUOTE ANSWER. HE SAID HOW IMPORTANT IT WAS THAT I HAD SPOKEN TO HIM. IF HE HAD KNOWN WHAT WAS IN YOUR MIND HE WOULD HAVE PICKED THE TELEPHONE UP AND SAID QUOTE HEY, PETER, WHAT'S ALL THIS UNQUOTE.

7. HAIG ADMITTED THAT THE JEWISH ORGANISATIONS TO WHICH HE HAD SPOKEN HAD LEAKED THE QUOTE COOL IT UNQUOTE STORY. HE HAD USED THESE WORDS TO THEM, BUT THE CONTEXT HAD BEEN ONE IN WHICH HE HAD BEEN SAYING THAT IT WOULD NOT HELP IF THE EUROPEANS PUT ON SO MUCH PRESSURE EG OVER THE FAHD PROPOSALS THAT IT HEATED UP THE SITUATION. THE ISRAELIS HAD BEEN IN A VERY EXCITABLE STATE AT THAT MOMENT.

8. SAYING THAT I WAS SURE HE WOULD AGREE WITH ME ABOUT THE CAPABILITIES OF ISRAELI INTELLIGENCE, INCLUDING DISINFORMATION, I TOLD HAIG THAT AS A PURELY PERSONAL EXPLANATION I HAD SUGGESTED TO YOU THAT HE, HAIG, MIGHT HAVE BEEN GIVEN SOME SPURIOUS INTELLIGENCE ABOUT YOUR VIEWS. HAIG SAID THAT HE WAS CERTAINLY AWARE OF ISRAELI CAPABILITIES IN THIS RESPECT: BUT QUOTE I HAVE SEEN NOTHING OF THIS KIND UNQUOTE. GIVEN HIS VOLATILITY, I WAS STRUCK BY THE MILDNESS OF HAIG'S DENIAL. I THINK HE COULD HAVE BEEN MORE INDIGNANT AT MY SUGGESTION: BUT I WOULD NOT WANT TO MAKE TOO MUCH OF IT BECAUSE THROUGHOUT THE TALK HE WAS CALM, REASONABLE AND WORRIED MAINLY BY THE IMPRESSION THAT HAD BEEN CREATED IN YOUR MIND OF WHICH HE SAID HE WAS QUITE UNAWARE.

9. I SAID THAT THERE WAS A DANGER OF ANTI-AMERICAN FEELING GROWING IN THE UK. IT WOULD BE WRONG TO MAKE TOO MUCH OF A CONNECTION BETWEEN ONE THING AND ANOTHER, BUT THE BRITISH PRESS HAD BEEN PUBLISHING STORIES ABOUT HAIG'S VIEWS. I MENTIONED BEESTON'S ARTICLE IN THE TELEGRAPH OF 10 NOVEMBER REPORTING HOW A HIGHLY PLACED AMERICAN SOURCE HAD APPARENTLY SPOKEN OF BRITAIN'S SPOILER ROLE, HER DUPLICITY AND THE WORSENING RELATIONS BETWEEN THE TWO SECRETARIES OF STATE. THIS SORT OF THING WAS NOT HELPING WITH BRITISH OPINION, APART FROM ITS BEARING ON PERSONAL RELATIONS BETWEEN YOU BOTH. HAIG SAID THAT THIS WAS THE FIRST HE HAD HEARD ABOUT THESE BRITISH PRESS REPORTS.

10. SEE MIFT

HENDERSON

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+ SA Adams)
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FM WASHINGTON 130101Z NOV 81
TO IMMEDIATE FCO
TELEGRAM NUMBER 3410 OF 12 NOVEMBER 1981

PERSONAL FOR SECRETARY OF STATE

MIPT: TALK WITH HAIG

1. OBVIOUSLY HAIG IS NOT UNAWARE OF THE THINGS HE HAS BEEN SAYING,
BUT HE MAY NOT HAVE REALISED HOW MUCH THEY WERE BEING BROADCAST AND
THE IMPACT THEY WERE MAKING ON YOU.

2. AS FOR WHAT HE MAY HAVE HEARD ABOUT YOUR VIEWS ON HIM I THINK
WE CAN MORE OR LESS ACCEPT HIS ACCOUNT: AT LEAST I DO NOT THINK
THERE IS ANY POINT IN PURSUING IT FURTHER: HAIG SAID AS IF IT WOULD
COME AS A SURPRISE TO ME QUOTE THINGS DO GET BACK YOU KNOW UNQUOTE.

3. I THINK HAIG WAS WORRIED BOTH ON THE PERSONAL PLANE AND ON THAT OF UK/US RELATIONS, AND I WOULD BE SURPRISED IF HE DOES NOT MODERATE HIS COMMENTS, AT ANY RATE UNTIL ISRAELI PRESSURE BECOMES INTOLERABLE AGAIN. I AM SURE THAT NO ADVERSE SIDE-EFFECTS WERE CREATED BY CLEARING THE AIR IN THIS WAY. HE IS NOT INTROSPECTIVE; HE IS SENSITIVE ABOUT THE EFFECT OF OTHERS ON HIM, IF NOT VICE VERSA. I AGO WOULD FIND HIM EASY TO WORK ON.

4. I TOOK THE RISK OF SAYING THAT IF WE HAD SEEMED TO HIM IN THE PAST INSENSITIVE TO HIS PROBLEMS AND PRESSURES, I THOUGHT HE COULD REST ASSURED THAT HE WOULD FIND US VERY SENSITIVE. WE RECOGNISED HOW CRUCIAL WAS THE DATE OF 26 APRIL. I COULD PROMISE HIM THAT YOU WOULD DO NOTHING THAT WOULD JEOPARDISE ISRAELI WITHDRAWAL: IT HAD NEVER BEEN YOUR INTENTION TO DO ANYTHING OF THE KIND. ON THE CONTRARY. AS REGARDS THE FAHD POINTS I ADDED THAT I NOTICED THAT THE PRESIDENT HAD AGAIN YESTERDAY EXPRESSED SUPPORT FOR SOME OF THEM. QUOTE YES UNQUOTE HAIG SAID, ALMOST THEATRICALY, QUOTE THAT'S BECAUSE HE BELIEVES IN THEM UNQUOTE.

5. WHAT NEXT? I SUGGEST NOTHING SO FAR AS YOU ARE CONCERNED. I DID NOT SUGGEST THAT THERE WAS ANYTHING THAT HE NEED DO BY WAY OF PERSONAL EXPLANATION TO YOU. BUT SOMEHOW I HOPE THAT IT WILL GO BETTER NOW. CERTAINLY HE DOES NOT AT ALL WANT CONTINUED PERSONAL FRICTION WITH YOU.

HENDERSON

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FM WASHINGTON 050025Z NOV 81
TO PRIORITY FCO
TELEGRAM NUMBER 3301 OF 4 NOVEMBER

INFO SAVING EC POSTS, LISBON, OTTAWA, ANKARA REYKJAVIC
CG'S USA, OSLO, UKDEL NATO, UKMIS NEW YORK

THE REAGAN ADMINISTRATION

1. THE AMERICAN PRESS ARE ONCE MORE REPORTING DISARRAY IN THE REAGAN ADMINISTRATION BOTH ON FOREIGN POLICY AND THE ECONOMY. THERE HAS BEEN ANOTHER FLURRY OVER HAIG'S POSITION. HAIG PERSONALLY INTERVENED A FEW DAYS AGO TO TRY TO DISSUADE THE SYNDICATED COLUMNIST, JACK ANDERSON FROM WRITING THAT HE ALREADY HAD QUOTE ONE FOOT ON THE BANANA PEEL UNQUOTE. HAIG TOLD ANDERSON THAT A TOP WHITE HOUSE OFFICIAL WAS RUNNING A GUERRILLA CAMPAIGN AGAINST HIM AND SUBSEQUENTLY SEEMS TO HAVE PERSUADED THE PRESIDENT HIMSELF TO TRY (UNSUCCESSFULLY, OF COURSE) TO SCOTCH THE STORY. THE PRESIDENT YESTERDAY MADE A STATEMENT TO THE PRESS CONFIRMING HIS CONFIDENCE IN HAIG AND HAIG HAS TODAY TOLD THE SENATE FOREIGN RELATIONS COMMITTEE THAT HE AND THE PRESIDENT ARE IN FULL AGREEMENT ON THE CONDUCT OF FOREIGN POLICY.
2. WHILE THIS STORY IS SYMPTOMATIC OF THE CONTINUING UNEASY RELATIONS BETWEEN HAIG AND THE SENIOR WHITE HOUSE STAFF AND OF HAIG'S OWN EXTREME SENSITIVITY TO THE PRESS, IT IS ALSO PART OF A WIDER PICTURE INCLUDING A RENEWED SPATE OF ADVERSE EDITORIAL COMMENT ON US FOREIGN POLICY IN GENERAL. THIS CRITICISM HAS TO DO BOTH WITH HOW THE ADMINISTRATION CONDUCTS ITSELF AND WITH THE SUBSTANCE OF POLICY, ESPECIALLY IN THE MIDDLE EAST WHERE THE EXTENT OF THE PRESIDENT'S AWACS VICTORY IN THE SENATE IN NO WAY MATCHED THE EFFORT THAT WENT INTO IT AND HAS NOT BEEN ABLE TO DISGUISE THE FACT THAT A TACTICAL SUCCESS IN CONGRESS IS NOT A SUBSTITUTE FOR A COHERENT POLICY IN THE REGION. REAGAN'S EXPANSION OF THE CARTER DOCTRINE TO COMMIT THE UNITED STATES TO THE DEFENCE OF THE SAUDI REGIME IS THE MOST NOTABLE RECENT EXAMPLE OF THE TENDENCY OF THE ADMINISTRATION TO MAKE POLICY AS THEY GO ALONG.
3. MORE DAMAGING QUESTIONS ABOUT THE SURENESS OF REAGAN'S TOUCH IN FOREIGN POLICY ARE LIKELY TO ARISE IF HIS ECONOMIC POLICY IS SEEN TO FOUNDER, NOT LEAST BECAUSE OF THE IMPLICATIONS FOR FULFILLING THE ADMINISTRATION'S MASSIVE COMMITMENTS IN THE DEFENCE FIELD. THE PROSPECT (GIVEN SOME CREDENCE IN RECENT STATEMENTS BY STOCKMAN) OF A DEFICIT OF DOLLARS 100 BILLION IN FY 1984 INSTEAD OF THE PROMISED BALANCE MAKES IT OBVIOUS THAT THE SUPPLEMENTAL SPENDING CUTS ANNOUNCED ON 24 SEPTEMBER WERE NO WAY NEAR ENOUGH.

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4. THE ADMINISTRATION'S CHOICES (ALLOWING THE BUDGET DEFICIT TO RISE, CUTTING PUBLIC EXPENDITURE POSSIBLY INCLUDING DEFENCE SPENDING; RAISING TAXES - OR SOME COMBINATION OF ALL THREE) ARE POLITICALLY UNPALATABLE AND POTENTIALLY DAMAGING. THERE HAS BEEN A WELL-PUBLICISED DISAGREEMENT BETWEEN STOCKMAN, WHO SEES THE NEED FOR TAX INCREASES, AND REGAN, WHO DOES NOT. PUBLIC SCEPTICISM IS GROWING AND WAS ALMOST CERTAINLY REFLECTED IN YESTERDAY'S DEMOCRATIC VICTORY IN THE ELECTIONS FOR GOVERNOR OF VIRGINIA, WHERE THE REPUBLICAN CANDIDATE, AN ADVOCATE OF THE REAGAN PROGRAMME WHO HAD BEEN STRONGLY ENDORSED BY THE PRESIDENT, WAS DECISIVELY BEATEN, THE FIRST TIME THE REPUBLICANS HAVE LOST THE GOVERNORSHIP SINCE 1965.

5. WHATEVER OPTIONS HE CHOOSES, THE PRESIDENT WILL NOT HAVE AN EASY RIDE IN CONGRESS. HE HAS APPARENTLY GIVEN REPUBLICAN LEADERS A CLEAR STEER THAT HE DOES NOT WANT MAJOR DEFENCE CUTS OR TAX INCREASES, BUT THIS LEAVES THE PROSPECT OF A RISING BUDGET DEFICIT WHICH WOULD BE HARPED UPON IN THE PRESS AND ELSEWHERE AND WILL LEAVE HIM OPEN TO OPPOSITION FROM REPUBLICAN CONGRESSMEN WHO WISH PROGRESS TOWARDS BALANCING THE BUDGET TO BE MADE. THE ONE BRIGHT SPOT IS THE DECLINE IN INTEREST RATES BUT THIS IS ALMOST UNIVERSALLY ATTRIBUTED, NOT TO THE SUCCESS OF THE ADMINISTRATION'S POLICIES, BUT TO THE SLACKENING OF ECONOMIC ACTIVITY. THERE ARE ALREADY SIGNS THAT SOME OF THE REPUBLICAN LEADERSHIP IN CONGRESS ARE PREPARING TO JUMP OFF THE REAGAN BANDWAGON AND TO PUT SOME DISTANCE BETWEEN THEMSELVES AND THE PRESIDENT AS THEY APPROACH AN ELECTION YEAR. THE CONVENTIONAL VIEW IS THAT REAGAN HAS ONLY UNTIL MID-1982 TO PRODUCE AN UPTURN IN THE ECONOMY IF HE IS TO HAVE ANY HOPE OF CONSOLIDATING LAST YEAR'S REPUBLICAN VICTORIES.

FCO PASS SAVING ATHENS BONN BRUSSELS COPENHAGEN DUBLIN
LUXEMBOURG PARIS ROME THE HAGUE UKREP BRUSSELS
LISBON OTTAWA ANKARA REYKJAVIK OSLO UKDEL NATO

HENDERSON

REPEATED AS REQUESTED

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THIS TELEGRAM
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oro

Premier Minister

(2)

~~Michael Alexander~~

Personal.

PS/PUS

To note the point
in the final sentence.

The 27th I mentioned
to you on the phone.

Roderic Lyne

Position of Mr Haig

Henry Brandon, speaking in confidence to the Secretary of State this morning, said that Haig's position was stronger than it had been but by no means secure. Haig's major disadvantages were that he was temperamental and that he remained an outsider in the Administration. Brandon contrasted him in both respects to Weinberger, who was on the inside, and a master both of his brief and his emotions. He also said that Clark was an insider and acted on occasions as an intermediary between Haig and the White House. Brandon went on to say that Haig's position was helped by his relations with the Europeans and by evidence of his success in selling US policies to them. Furthermore, there was no agreement as to who might succeed Haig if he were to go.

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The Secretary of State had to leave the meeting and asked me to continue it briefly. Brandon added that Haig himself had recently indicated to him that he had been thinking whether he should stay on: he complained in particular of having to stand up alone in the Administration for unpopular causes (saying that he had never thought that the time would come when he would be left of centre!). Brandon said that it would be difficult to move Weinberger from defence at this stage, and volunteered that soundings had recently been made of Schultz to see if he would be prepared to take on the job of Secretary of State. Schultz had apparently refused.

ms

John

(B J P Fall)
Private Secretary

28 October 1981

- cc: PS
- PS/LPS
- PS/Mr Hurd
- Mr Bullard
- Mr Mallaby

fa. Hurd



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Sir N Henderson,
% Hdc of Mission 3/POD

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Mr Day

Hd/ERD

Mr. Urc

Hd/ESID

Mr. Braithwaite

PS

No 10 DS.

PS/LPS

Cabinet Office

PS/Mr. Ridley

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FM WASHINGTON 292225Z JUN 81

TO PRIORITY F C O

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

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 HIGHLIGHTED INDIVIDUAL, AND POTENTIALLY UNPOPULAR, PROGRAMME CUTS AND WHICH MIGHT HAVE SHAMED CONSERVATIVE DEMOCRATS INTO VOTING AGAINST THE ADMINISTRATION'S PROPOSALS. BUT ON 25 JUNE A PROCEDURAL VOTE FORCED BY ADMINISTRATION SUPPORTERS, WITH THE BACKING OF CONSERVATIVE DEMOCRATS PAVED THE WAY FOR A VOTE ON THE PACKAGE AS A WHOLE ON THE FOLLOWING DAY. THE DRAMATIC VOTE ON 26 JUNE WAS ON THE BASIS OF A HASTILY-PREPARED BULKY DOCUMENT PREPARED WITH STOCKMAN'S HELP, WHICH THE MEMBERS OF THE HOUSE HAD LITTLE TIME TO READ OR UNDERSTAND. NONETHELESS THE ADMINISTRATION'S PLAN WAS APPROVED BY A NARROW SIX-VOTE MARGIN.

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.

F C O PASS SAVING PARIS, BONN, E C, UKDEL O E C D

FRETWELL

GRS 110

UNCLASSIFIED

FM WASHINGTON 062102Z MAY 81

TO ROUTINE F C O

TELEGRAM NUMBER 1406 OF 6 MAY

INFO SAVING BONN, PARIS, UKDEL NATO, MOSCOW, UKMIS NEW YORK.

MY TELNO 1338: STATE DEPARTMENT APPOINTMENTS

1. BY UNANIMOUS VOTE YESTERDAY THE FULL SENATE CONFIRMED, AMONG OTHERS, JOHN LOUIS AS U.S. AMBASSADOR TO LONDON, LEE ANNENBERG AS CHIEF OF PROTOCOL AND ABRAMS AND HORMATS AS ASSISTANT SECRETARIES AT THE STATE DEPARTMENT.

2. THE SENATE FOREIGN RELATIONS COMMITTEE ALSO APPROVED HOLDRIDGE, EAGLEBURGER, MALONE AND VELIOTES AS ASSISTANT SECRETARIES. THE VOTE ON MALONE WAS ONLY 12 TO 5, WITH OPPOSITION FROM THE DEMOCRATS.

F C O PASS SAVING - PARIS, BONN, MOSCOW, UKDEL NATO.

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REPEATED AS REQUESTED

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DESKBY 260930Z
FM WASHINGTON 252315Z MAR 81
TO IMMEDIATE F C O
TELEGRAM NUMBER 1003 OF 25 MARCH 1981
INFO SAVING NATO POSTS AND DUBLIN

ms

MIPT: SECRETARY HAIG: CRISIS MANAGEMENT

1. FOLLOWING IS TEXT OF WHITE HOUSE STATEMENT:
BEGINS:

I AM CONFIRMING TODAY THE PRESIDENT'S DECISION TO HAVE THE VICE PRESIDENT CHAIR THE ADMINISTRATION'S QUOTE CRISIS MANAGEMENT UNQUOTE TEAM, AS A PART OF THE NATIONAL SECURITY COUNCIL SYSTEM.

THE PURPOSE OF THIS TEAM IS TO COORDINATE AND CONTROL ALL APPROPRIATE FEDERAL RESOURCES IN RESPONDING TO EMERGENCY SITUATIONS BOTH FOREIGN AND DOMESTIC. THE TYPE OF INCIDENT THAT MIGHT BE INVOLVED RANGES FROM AN ISOLATED TERRORIST ATTACK TO AN ATTACK UPON UNITED STATES TERRITORY BY A HOSTILE POWER.

DURING ANY EMERGENCY, THE PRESIDENT WOULD, OF COURSE, BE AVAILABLE TO MAKE ALL CRITICAL DECISIONS AND TO CHAIR THE CRISIS MANAGEMENT TEAM AS HIS PRESENCE MAY BE NEEDED. VICE PRESIDENT BUSH'S ROLE IS TO CHAIR THE TEAM IN THE ABSENCE OF THE PRESIDENT. OF GREAT IMPORTANCE, HE WILL ALSO ENGAGE IN FORWARD PLANNING FOR EMERGENCY RESPONSES, DEVELOP OPTIONS FOR PRESIDENTIAL CONSIDERATION AND TAKE THE LEAD IN THE IMPLEMENTATION OF THOSE DECISIONS.

PRESIDENT REAGAN'S CHOICE OF THE VICE PRESIDENT WAS GUIDED IN LARGE MEASURE BY THE FACT THAT MANAGEMENT OF CRISES HAS TRADITIONALLY AND APPROPRIATELY - BEEN DONE WITHIN THE WHITE HOUSE.

AS IN THE PAST, THE NATIONAL SECURITY COUNCIL STAFF WILL PROVIDE THE ADMINISTRATIVE AND OTHER STAFF SUPPORT TO THE PRESIDENT AND THE VICE PRESIDENT FOR THE CRISIS MANAGEMENT TEAM.

ENDS.

FCO PSE PASS SAVING TO ANKARA ATHENS BRUSSELS BONN COPENHAGEN
DUBLIN LISBON LUXEMBOURG OTTAWA OSLO PARIS ROME REYKJAVIK THE
HAGUE UKDEL NATO

HENDERSON

[REPEATED AS REQUESTED]

FCO/WHITEHALL
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CONFIDENTIAL

FM WASHINGTON 252311Z MAR 81

TO PRIORITY F C O

TELEGRAM NUMBER 1002 OF 25 MARCH 1981

INFO SAVING NATO POSTS AND DUBLIN.

MY TELNO 985: SECRETARY HAIG: CRISIS MANAGEMENT

1. THE WHITE HOUSE ISSUED A STATEMENT YESTERDAY EVENING (TEXT IN MIFT) QUOTE CONFIRMING THE PRESIDENT'S DECISION TO HAVE THE VICE PRESIDENT CHAIR THE ADMINISTRATION'S CRISIS MANAGEMENT TEAM AS PART OF THE NATIONAL SECURITY COUNCIL SYSTEM UNQUOTE. THIS, OF COURSE, IS QUITE THE OPPOSITE OF WHAT HAIG TOLD ME THE PRESIDENT HAD SAID TO HIM WHEN I SAW HIM EARLY YESTERDAY EVENING (MY TELEGRAM UNDER REFERENCE).

2. THIS IS THE FAVOURITE SUBJECT AT THE MOMENT FOR PRESS SPECULATION IN WASHINGTON AND THERE IS A GREAT DEAL OF IT. TODAY'S WASHINGTON POST REPORTS THAT AFTER THE WHITE HOUSE ANNOUNCEMENT HAIG HELD MEETINGS WITH HIS AIDES WELL INTO THE NIGHT AND THAT THE STATE DEPARTMENT LATER DENIED A REPORT THAT HE HAD RESIGNED. EACH CLARIFICATION ONLY MAKES THE ISSUE MUDDIER. NOT LEAST A CALL I HAVE JUST HAD FROM THE VICE PRESIDENT HIMSELF WHO HAD HEARD THAT THE SUBJECT HAD COME UP IN CONVERSATION BETWEEN HAIG AND ME YESTERDAY.

3. BUSH SAID THAT HE HOPED THAT LONDON WAS NOT IN ANY DOUBT ABOUT IT, BUT ALL THAT HAD HAPPENED WAS THAT THE PRESIDENT HAD DEPUTED TO HIM THE TRADITIONAL WHITE HOUSE ROLE WHEN EVERYONE WAS FLAPPING ON SOME PARTICULARLY CRITICAL PROBLEM, A TASK PRESIDED OVER TRADITIONALLY BY THE PRESIDENT OR ON HIS BEHALF BY THE NATIONAL SECURITY ADVISER. HE HIMSELF WOULD NOW BE DOING THAT, BUT BUSH SOUGHT TO INDICATE, I THINK, THAT HE WOULD NOT BE TAKING OVER ANY INITIATORY ROLE ON FOREIGN POLICY, SOMETHING THAT I SURMISE HAIG MAY HAVE WISHED HIM TO CLARIFY WITH ME. HE DREW THE DISTINCTION BETWEEN CRITICAL ISSUES SUCH AS POLAND AND EL SALVADOR, WHICH WOULD REMAIN STATE DEPARTMENT RESPONSIBILITY, AND PARTICULAR SITUATIONS WHEN QUOTE THE MARINES WERE LANDING UNQUOTE WHICH WOULD BE HANDLED BY HIM AND THE WHITE HOUSE SITUATION ROOM.

4. SINCE DICTATING THE ABOVE I HAVE HEARD THAT THE PRESIDENT HAS JUST ISSUED YET ANOTHER STATEMENT ON THE SUBJECT IN WHICH HE DESCRIBED HIMSELF AS QUOTE THE ULTIMATE CRISIS MANAGER UNQUOTE. HE ADDED QUOTE THE SECRETARY OF STATE IS MY PRIMARY ADVISER ON FOREIGN AFFAIRS AND IN THAT CAPACITY HE IS THE CHIEF FORMULATOR AND SPOKESMAN FOR FOREIGN POLICY IN THIS ADMINISTRATION UNQUOTE. REFERRING TO THE VICE PRESIDENT'S ROLE, THE PRESIDENT SAID THAT MR BUSH WOULD BE RESPONSIBLE FOR EARTHQUAKES OR FLOODS AS WELL AS FOR FOREIGN POLICY CRISES. AS IF TO LAND THE LAST BLOW, BUSH HIMSELF HAS ALSO GIVEN A PRESS CONFERENCE DURING WHICH, WHEN ASKED HOW

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/A CRISIS

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A CRISIS IS TO BE DEFINED, HE REPLIED QUOTE WE WILL KNOW IT WHEN THE PRESIDENT SEES IT UNQUOTE. WITH THE SOLEMNITY THAT THE WHOLE ISSUE MERITS, BUSH EXPLAINED THAT HE QUOTE ENVISIONS THE JOB OF CRISIS MANAGEMENT AS SITTING IN THE WHITE HOUSE SITUATION ROOM UNTIL THE PRESIDENT GETS THERE UNQUOTE.

FCO PSE PASS SAVING TO ANKARA ATHENS BRUSSELS BONN COPENHAGEN LISBON LUXEMBOURG DUBLIN OTTAWA OSLO PARIS ROME REYKJAVIK THE HAGUE UKDEL NATO

HENDERSON

REPEATED AS REQUESTED

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FM WASHINGTON 250200Z MAR 81

TO IMMEDIATE F C O

TELEGRAM NUMBER 985 OF 24 MARCH

ms

CALL ON HAIG

1. I SAW HAIG TO-DAY. VELIOTES (ASSISTANT SECRETARY-DESIGNATE FOR THE NEAR EAST) AND EAGLEBURGER (ASSISTANT SECRETARY-DESIGNATE FOR EUROPE) WERE PRESENT. HAIG WAS IN EXCELLENT FORM, PARTLY PERHAPS BECAUSE THE PRESIDENT HAD JUST TELEPHONED HIM TO SAY THAT REPORTS THAT HE HAD PLACED THE VICE PRESIDENT IN CHARGE OF CRISIS MANAGEMENT WERE A TOTAL FABRICATION. HAIG TOLD ME THIS WITH GLEE, CLEARLY PLEASED TO HAVE WON THIS ROUND IN WHAT HE CALLED THE STRUGGLE FOR TURF IN THE NEW ADMINISTRATION.

*Not reflected
L to Day's
press!*

*Ans
25/3*

2. I TOOK THE OPPORTUNITY TO THANK HAIG FOR THE INCREASED US AID CONTRIBUTION TO ZIMBABWE ANNOUNCED TODAY. THIS WAS A SUBJECT YOU HAD DISCUSSED WITH HIM DURING YOUR RECENT VISIT HERE. MY FOUR I F TS REPORT OUR DISCUSSIONS OF ISRAELI SETTLEMENTS, THE MIDDLE EAST AND SOUTH WEST ASIA, SOUTHERN AFRICA AND BELIZE.

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PS/LRS

PS/MR LUCE

PS/MR RIDKEY

PS/PUS

MR DAY

MR URE

SIR L. ALLINSON

CABINET OFFICE

COPIES SENT TO No. 10 DOWNING STREET

CONFIDENTIAL



EMBASSY OF THE UNITED STATES
LONDON

February 19, 1981

Ends
T28/81
Missing

MA

Dear Prime Minister:

I have been asked to deliver the enclosed message to you from President Reagan, which was received at the Embassy this morning.

Sincerely,

Kingman Brewster
Ambassador

Enclosure

The Rt. Hon. Margaret Thatcher, M.P.,
Prime Minister,
London.



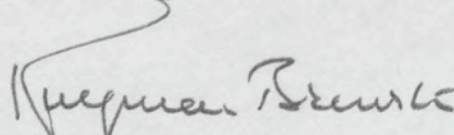
EMBASSY OF THE UNITED STATES OF AMERICA
LONDON

February 19, 1981

Dear Prime Minister:

I have been asked to deliver the enclosed message to you from President Reagan, which was received at the Embassy this morning.

Sincerely,


Kingman Brewster
Ambassador

Enclosure

The Rt. Hon. Margaret Thatcher, M.P.,
Prime Minister,
London.

USA

GR 300

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FM WASHINGTON 292220Z JAN 81

TO ROUTINE F C O

TELEGRAM NUMBER 314 OF 29 JANUARY 1981

INFO MODUK MOSCOW PARIS BONN UKDEL NATO ISLAMABAD KABUL JEDDA NEW DELHI TOKYO OTHER NATO POSTS DUBLIN UKREP BRUSSELS UKMIS NEW YORK WARSAW STOCKHOLM TEHRAN AND HAVANA

HAIG PRESS CONFERENCE: 28 JANUARY

1. AT HIS FIRST PRESS CONFERENCE YESTERDAY, HAIG SPOKE AT LENGTH ON A NUMBER OF FOREIGN POLICY ISSUES. DETAILS ARE REPORTED IN MY EIGHT IFT'S (NOT TO ALL) ON THE FOLLOWING: ARMS CONTROL, POLAND, THE ALLIANCE, AFGHANISTAN, KOREA, IRAN, EL SALVADOR AND CUBA

2. TODAY'S PRESS HIGHLIGHTS HAIG'S REMARKS ON IRAN (MY TELNO 320) AND ON TERRORISM. HE INDICATED THAT CONCERN ABOUT TERRORISM WOULD TAKE THE PLACE OF HUMAN RIGHTS IN THE NEW ADMINISTRATION'S POLICY, ON THE GROUNDS THAT TERRORISM WAS THE ULTIMATE ABUSE OF HUMAN RIGHTS.

3. THIS HE COUPLED WITH A VERY TOUGH LINE ON THE SOVIET UNION. WHILE ACKNOWLEDGING THE NEED TO KEEP LINES OPEN TO THE RUSSIANS, HE EXPLICITLY ACCUSED THEM OF TRAINING, FUNDING AND EQUIPPING INTERNATIONAL TERRORISM. HE SPOKE OF THE SOVIET UNION BEING INVOLVED IN CONSCIOUS POLICIES AND PROGRAMMES TO FOSTER, SUPPORT AND EXPAND THIS MENACEM IN ADDITION HAIG TALKED OF AN UNPRECEDENTED RISK-TAKING MODE ON THE PART OF THE SOVIET UNION, BOTH IN LATIN AMERICA AND AFRICA. THE SOVIET EXPLOITATION OF THE CUBAN PROXY WOULD BE THE SUBJECT OF UTMOST CONCERN TO THE NEW ADMINISTRATION, AND HIGH AMONG THE PRIORITIES ON ITS NATIONAL SECURITY/FOREIGN POLICY AGENDA.

4. PRESS REPORTS HAVE COVERED HAIG'S STYLE AS WELL AS HIS SUBSTANCE, DESCRIBING HIS PERFORMANCE AS TOUGH, ASSERTIVE AND SUPREMELY SELF-CONFIDENT, LACED WITH OCCASIONAL BITTER IRONY. THE WASHINGTON POST CONTRASTS HIS ROUGH AND READY PEARL-HANDLED MANNER WITH THAT OF HIS TWO PREDECESSORS, AND PREDICTS THAT HAIG WILL BE A MEDIA STAR AS WELL AS A POLICY POWERHOUSE, EVIDENTLY CONCERNED TO ESTABLISH QUICKLY AND CLEARLY THAT IT WILL BE FOR HIM TO ENUNCIATE AS WELL AS FORMULATE U.S. FOREIGN POLICY.

HENDERSON

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FM WASHINGTON 280050Z JAN 81

TO PRIORITY FCO

TELEGRAM NO 286 OF 27 JANUARY

*ms***HOSTAGES: WASHINGTON RECEPTION**

1. THE HOSTAGES WERE WELCOMED TO WASHINGTON TODAY AND I ATTENDED A RECEPTION AT THE WHITE HOUSE IN THEIR HONOUR. THE OTHER FOREIGN REPRESENTATIVES INVITED WERE THE CANADIAN, ALGERIAN, FRG AND SWISS AMBASSADORS.

2. THE HOSTAGES AND THEIR FAMILIES DROVE IN FROM THE AIRPORT IN 16 BUSES THROUGH STREETS THROGGED WITH CHEERING PEOPLE AND BEDECKED WITH FLAGS. ON THE SOUTH LAWN OF THE WHITE HOUSE THERE WAS AN ENORMOUS CROWD TO GREET THEM. ON THE DAIS, APART FROM THE FOREIGN REPRESENTATIVES I HAVE JUST MENTIONED, THERE WERE THE PRESIDENT AND MRS REAGAN, THE VICE PRESIDENT AND MRS BUSH, THE SECRETARY OF STATE AND MRS HAIG, THE SECRETARY FOR DEFENSE, THE SPEAKER OF THE HOUSE OF REPRESENTATIVES, THE MAJORITY AND MINORITY LEADERS IN BOTH HOUSES, MEMBERS OF THE FOREIGN AFFAIRS COMMITTEES AND THE CHIEFS OF STAFF. THERE WAS A LARGE MILITARY CONTINGENT TOGETHER WITH MASSED BANDS. THE PRESIDENT DELIVERED A SPEECH OF WELCOME HOME, THE MAIN POINT OF WHICH, I THINK, WAS HIS WARNING THAT THE UNITED STATES WOULD NOT AGAIN TOLERATE THE TAKING OF HOSTAGES.

3. THE PRESIDENT WAS FOLLOWED BY LAINGEN AND HE AND ALL THE OTHER FORMER HOSTAGES WERE GIVEN SPECIAL FLAGS IN PRESENTATION BOXES.

4. AFTER WE HAD ALL SUNG GOD BLESS AMERICA, WE WERE ENTERTAINED TO A RECEPTION IN THE WHITE HOUSE AT WHICH THE PRESIDENT MADE ANOTHER SHORT AND WARM SPEECH, FOLLOWED BY TEA, COCA COLA AND CHOCOLATE CAKES.

5. AT THE RECEPTION I MANAGED TO HAVE A WORD WITH LAINGEN WHO, SAYING THAT IT WAS NOT THE PLACE FOR A SERIOUS CONVERSATION, DID MANAGE TO EXPRESS GRATITUDE TO JOHNNY GRAHAM FOR ALL THAT HE HAD DONE. IN A WORD I HAD WITH ONE OF THE OTHER HOSTAGES, MOORHEAD KENNEDY, WHOSE WIFE HAS BEEN THE LEADER OF THE HOSTAGE FAMILIES, HE SAID ONE OR TWO INTERESTING THINGS: IT HAD BEEN THE GREATEST MISTAKE TO ADMIT THE SHAH WHEN THE US EMBASSY IN TEHRAN HAD BEEN TELLING THE STATE DEPARTMENT IN NO UNCERTAIN TERMS THAT, WITH REVOLUTION RAMPANT IN TEHRAN, THE ADMISSION OF THE SHAH TO THE UNITED STATES WOULD BE BOUND TO IGNITE THE MOST VIOLENT REACTION, WHICH WAS INDEED WHAT HAPPENED: HE ALSO SAID THAT HE HAD NOT KNOWN ABOUT THE FAILED RESCUE RAID UNTIL LONG AFTERWARDS AND THEN ONLY BY MEANS OF A PS TO A LETTER FROM SOME RELIGIOUS MANIAC - ORDINARY CORRESPONDENCE HAD BEEN STOPPED WHEN THEY HAD BEEN EVACUATED FROM TEHRAN FOLLOWING THE RAID. FROM THE WAY HE SPOKE KENNEDY GAVE THE IMPRESSION THAT HE THOUGHT THAT THE RAID WAS A PROFOUND MISTAKE. IT WOULD HAVE BEEN BOUND TO HAVE LEAD TO THE DEATH OF

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ALL THE HOSTAGES: THE TROUBLE WAS THAT CARTER HAD BEEN FORCED TO DO IT UNDER PRESSURE OF OPINION THOUGH HIS OWN INSTINCTS CERTAINLY MUST HAVE BEEN PROMPTING HIM THE OTHER WAY: UNTIL THE FAILED RAID, CONDITIONS HAD BEEN GETTING VERY MUCH BETTER FOR THE HOSTAGES AND KENNEDY INDICATED THAT RELEASE WOULD HAVE COME MUCH EARLIER HAD IT NOT BEEN FOR THE RAID. THE ONLY WAY TO DEAL WITH THE REVOLUTIONARY MOB WAS BY PLAYING FOR TIME AND HUMOURING THEM. I INTERJECTED THAT THIS WAS THE COMPLETE OPPOSITE OF THE POLICY THAT MANY PEOPLE IN THIS COUNTRY HAD BEEN RECOMMENDING, INCLUDING IN PARTICULAR KISSINGER. KENNEDY EXPOSTULATED THAT NONE OF THE HOSTAGES AGREED WITH THE TOUGH LINE THEORY BECAUSE IT WOULD HAVE BEEN COMPLETELY INEFFECTIVE TO ACHIEVE ITS PURPOSES.

6. I SHOULD ADD THAT CHRISTOPHER, WHO PLAYED THE MAIN PART ON THE AMERICAN SIDE IN THE NEGOTIATIONS IN ALGERIA, WAS NOT PRESENT AT ANY OF TODAY'S EVENTS, HAVING LEFT FOR CALIFORNIA. BUT NEWSOM OF THE STATE DEPARTMENT HAS TOLD ME HOW ENORMOUSLY GRATEFUL THE STATE DEPARTMENT WERE FOR THE HELP THAT THE BRITISH HAD GIVEN: AND THE BANK OF ENGLAND AND MCMAHON IN PARTICULAR HAD BEEN OF THE GREATEST HELP.

7. I HAVE THE FEELING THAT THE ENORMOUS EFFORT THAT HAS GONE INTO THE WELCOME TO THE HOSTAGES HAS IMPOSED QUITE A STRAIN ON THE NEW ADMINISTRATION BEFORE IT HAS REALLY GOT INTO THE SADDLE. NO HEAD OF PROTOCOL HAS YET BEEN APPOINTED AND THERE IS NO SOCIAL SECRETARY AT THE WHITE HOUSE. ARRANGEMENTS ARE NOT CHAOTIC, BUT I SENSE THAT THE WHITE HOUSE IS REACHING THE LIMITS OF ITS RESOURCES AND I CANNOT SEE HOW IT IS GOING TO GIVE THE WHITE TIE RECEPTION FOR THE DIPLOMATIC CORPS THAT IS DUE THERE TONIGHT WHEN THE 16 BUS-LOADS ARE STILL AT THE WHITE HOUSE AS I TELEGRAPH. AS AN ILLUSTRATION OF THE SLIGHT DISORDER THAT PREVAILS, I GATHER THAT THE KOREAN HEAD OF STATE, WHO IS DUE HERE VERY SHORTLY, BELIEVING THAT HE IS COMING ON A STATE VISIT, IS NOT NECESSARILY GOING TO BE ENTERTAINED AT THE WHITE HOUSE BECAUSE OF THE DIFFICULTY OF MAKING ARRANGEMENTS IN TIME: NEEDLESS TO SAY, THIS HAS PRODUCED CONSIDERABLE INDIGNATION. IT MAKES ME GLAD THAT WE HAVE A LITTLE TIME IN HAND BEFORE THE PRIME MINISTER AND YOU WILL BE COMING HERE.

8. HOWEVER, THE JUBILANT RECEPTION THE HOSTAGES HAVE RECEIVED REFLECTS THE FEELINGS OF THE COUNTRY: A SENSE OF RELIEF AND GRATITUDE, AND A WISH TO RALLY ROUND AND RESPOND TO SOMETHING PATRIOTIC. I FIND MY FOREIGN COLLEAGUES, PARTICULARLY THOSE WHO HAVE HAD ACQUAINTANCE WITH PRISONERS OF WAR, FIND THE WHOLE EPISODE, INVOLVING AS IT DOES THE EXUBERANT SEARCH FOR NATIONAL SYMBOLISM, VERY ODD INDEED. ONE CANNOT ALSO FORGET THAT THE WHOLE STORY HAS BEEN A TREMENDOUS BONANZA FOR THE MEDIA.

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FM WASHINGTON 270030Z JAN 81

TO ROUTINE F C O

TELEGRAM NUMBER 257 OF 26 JANUARY

INFO PARIS, BONN, MOSCOW, UKDEL NATO, UKMIS NEW YORK,
 INFO SAVING ANKARA, LISBON, OTTAWA, OSLO, REYKJAVIK, ATHENS,
 UKREP BRUSSELS, BRUSSELS, COPENHAGEN, DUBLIN, LUXEMBOURG, ROME,
 THE HAGUE, ALL CGS IN USA.

*Read 2 full**mt***PRESIDENT REAGAN'S GOVERNMENT.**

1. YOU MAY LIKE TO HAVE SOME PRELIMINARY COMMENTS ON THE CONDUCT OF BUSINESS, PARTICULARLY FOREIGN AFFAIRS, UNDER THE NEW ADMINISTRATION.
2. REAGAN HAS UNUSUALLY HELD MEETINGS OF HIS CABINET EVERY DAY SINCE HE ASSUMED OFFICE. HE IS ALSO REPORTED TO HAVE INSTITUTED A SERIES OF INTER-DEPARTMENTAL COMMITTEES PRESIDED OVER BY DIFFERENT MEMBERS OF THE CABINET. BUSH HAS MOVED INTO MONDALE'S OFFICE IN THE WHITE HOUSE ITSELF, BUT IT IS TOO SOON TO GUESS WHETHER REAGAN WILL ALLOW HIM THE KIND OF INFLUENTIAL ROLE THAT MONDALE HAD. IT WILL ALSO TAKE A LITTLE TIME TO DISCERN THE BALANCE OF AUTHORITY WITHIN THE WHITE HOUSE BETWEEN MEESE AND BAKER (COUNSELLOR TO THE PRESIDENT AND CHIEF OF STAFF RESPECTIVELY).
3. OF GREATEST DIRECT INTEREST TO US WILL BE TO SEE HOW FAR HAIG CAN RE-ESTABLISH THE PRIMACY OF THE STATE DEPARTMENT OVER THE NSC UNDER RICHARD ALLEN. HAIG HAS SAID THAT HE INTENDS TO DO SO AND IS REPORTED TO BE TRYING TO RE-ESTABLISH STATE DEPARTMENT CHAIRMANSHIP OF TWO FOREIGN POLICY COMMITTEES WHICH WERE CLAIMED BY NSC STAFF UNDER CARTER. ALLEN HAS SAID THAT HE SEES HIS FUNCTION AS THAT OF COORDINATOR RATHER THAN INITIATOR OF POLICY. OF COURSE WASHINGTON HAS HEARD THIS BEFORE, BUT ALLEN HAS AT LEAST BEGUN BY STAYING OUT OF THE LIMELIGHT RECENTLY AFTER HIS MANY PUBLIC APPEARANCES DURING THE TRANSITION.
4. ON STATE/NSC RELATIONS IT IS RELEVANT THAT HENRY OWEN HAS NOT BEEN REPLACED AS ECONOMIC ADVISER TO THE PRESIDENT. IT IS EXPECTED THAT THE PRESIDENT'S SPECIAL REPRESENTATIVE FOR PREPARATIONS FOR ECONOMIC SUMMITS WILL COME FROM THE STATE DEPARTMENT, PERHAPS DICK COOPER'S SUCCESSOR AS ECONOMIC UNDER SECRETARY. (RASHISH HAS BEEN NAMED BUT NOT YET FORMALLY NOMINATED AS COOPER'S SUCCESSOR). THE NOMINATION OF WILLIAM CLARK (MY TELNO 245) WHO IS VERY CLOSE TO REAGAN COULD BE A HELP TO HAIG IF THE TWO HIT IT OFF, SINCE REAGAN, WHO DOES NOT KNOW HAIG, WOULD BE INCLINED TO TRUST CLARK IF DISPUTES AROSE BETWEEN THE STATE DEPARTMENT AND THE NSC.

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IT WOULD BE MORE DIFFICULT FOR ALLEN TO UNDERMINE HAIG'S POSITION EVEN IF HE WANTED TO. THERE IS ALSO THE QUESTION OF THE STATE DEPARTMENT'S RELATION WITH THE DEPARTMENT OF DEFENSE. THE LATTER WILL NOT LIKE THE IDEA OF STATE BECOMING ALL-POWERFUL, AND THEY MAY SEE THE DIMINUTION OF THE ROLE OF THE NSC AS THE LOSS OF AN IMPORTANT COUNTER-WEIGHT.

5. ALLEN TOLD ME SOME WEEKS AGO THAT AS ASSISTANT TO THE PRESIDENT FOR NATIONAL SECURITY AFFAIRS HE DID NOT INTEND TO DEAL WITH REPRESENTATIVES OF FOREIGN GOVERNMENTS. IT REMAINS TO BE SEEN WHETHER HE WILL STICK TO THIS. NOR DO WE KNOW WHETHER MEMBERS OF HIS STAFF, NOW BEING APPOINTED, WILL BE PREPARED LIKE THEIR PREDECESSORS TO DEAL WITH EMBASSIES. AMONG THOSE RUMOURED TO BE GETTING JOBS IN THE NSC ARE SEVERAL PEOPLE WHO HAD TRIED AND FAILED TO GET SENIOR JOBS IN THE STATE AND DEFENSE DEPARTMENTS AND WHO WILL WANT TO FLEX THEIR MUSCLES FROM THEIR POSITIONS IN THE NSC. UNTIL THE RELEVANT SENIOR APPOINTMENTS ARE COMPLETE - IN STATE NO ONE HAS EVEN BEEN FORMALLY NOMINATED EXCEPT WILLIAM CLARK - IT WILL BE IMPOSSIBLE TO DETERMINE THE BALANCE OF POWER AND INFLUENCE.

6. MEANWHILE RUMOURS AND SPECULATION CONTINUE TO FILL THE PRESS. WE HAVE BEEN TOLD BY A MEMBER OF SENATOR HELMS'S STAFF THAT THE PRESENT DELAY IN THE FORMAL NOMINATION OF SENIOR OFFICIALS IN THE STATE DEPARTMENT IS DUE TO A CONTINUING STRUGGLE WITHIN THE REPUBLICAN RANKS, LIKELY TO BE RESOLVED THIS WEEK. HAIG HIMSELF TOLD ME TODAY THAT HE HAS NOW SELECTED ALL HIS TOP OFFICIALS EXCEPT HIS ASSISTANT SECRETARY FOR LATIN AMERICA, BUT THAT VARIOUS CLEARANCES HAVE STILL TO BE EFFECTED BEFORE SOME OF THEM CAN BE OFFICIALLY NOMINATED FOR SENATE CONFIRMATION.

FCO PASS SAVING ANKARA, LISBON, OTTAWA, OSLO, REYKJAVIK, ATHENS, UKREP BRUSSELS, BRUSSELS, COPENHAGEN, DUBLIN, LUXEMBOURG, ROME, THE HAGUE.

HENDERSON

*FCO/WHITEHALL
NAD*

THIS TELEGRAM
WAS NOT
ADVANCED

(REPEATED AS REQUESTED)

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*Some interesting background,
esp on Senator Helms' attitude.*

FM WASHINGTON 232357Z JAN 81

TO ROUTINE F C O

TELEGRAM NUMBER 245 OF 23 JANUARY

INFO PARIS, BONN, UKDEL NATO, MOSCOW

INFO SAVING ANKARA, LISBON, OTTAWA, OSLO, REYKJAVIK, UKREP BRUSSELS,

ATHENS, BRUSSELS, COPENHAGEN, DUBLIN, LUXEMBOURG, ROME, THE HAGUE,

C.G.S IN USA.

And

REAGAN ADMINISTRATION APPOINTMENTS.

1. THE FOLLOWING APPOINTMENTS WERE ANNOUNCED TODAY:

DEPUTY SECRETARY OF STATE:	WILLIAM CLARK
DEPUTY TREASURY SECRETARY:	R T MCNAMAR (NOTE SPELLING)
DEPUTY ATTORNEY GENERAL:	EDWARD SCHMULTS
SECRETARY OF THE ARMY:	JOHN MARSH
SECRETARY OF THE NAVY:	JOHN LEHMAN
SECRETARY OF THE AIR FORCE:	VERNE ORR
CHAIRMAN OF THE COUNCIL OF ECONOMIC ADVISERS:	MURRAY WEIDENBAUM

2. BIOGRAPHIES WILL FOLLOW SEPARATELY.

3. THE NOMINATION OF CLARK, A REAGAN APPOINTEE TO THE CALIFORNIA SUPREME COURT WITH NO FOREIGN POLICY BACKGROUND (MY TELNO 40) WILL BE CONTROVERSIAL. HE WAS REAGAN'S FIRST CHOICE AS DEPUTY SECRETARY OF STATE, BUT IT HAS BEEN WIDELY RUMOURED THAT HIS APPOINTMENT WAS RESISTED BY HAIG. A STORY TO THAT EFFECT IN TODAY'S WASHINGTON POST HAS BEEN STRONGLY DENIED BY THE STATE DEPARTMENT SPOKESMAN AND HAIG HAS ISSUED A STATEMENT PRAISING CLARK'S "EXTRAORDINARY REPUTATION OF EXCELLENCE BOTH IN EXECUTIVE MANAGEMENT AND IN JURISPRUDENCE" AND DESCRIBING HIS NOMINATION AS A SUPERB CHOICE WHICH WOULD HAVE HIS ENTHUSIASTIC ENDORSEMENT.

4. THERE IS AN AIR OF PROTESTING TOO MUCH ABOUT HAIG'S STATEMENT. IT MAY BE THAT ACCEPTANCE OF CLARK AS HIS DEPUTY IS THE PRICE HAIG HAS HAD TO PAY TO COUNTER A THREAT BY A GROUP MAINLY COMPOSED OF RIGHT WING REPUBLICAN SENATORS LED BY SENATOR HELMS TO BLOCK HAIG'S CHOICES FOR OTHER SENIOR STATE DEPARTMENT POSTS, ON THE GROUNDS THAT THEY ARE ASSOCIATED WITH THE "FAILED" FOREIGN POLICIES OF FORMER ADMINISTRATIONS AND ARE NOT SUFFICIENTLY COMMITTED IDEOLOGICALLY TO THE SWEEPING CHANGES IN US FOREIGN POLICY DEMANDED BY THE CONSERVATIVES. THE PRINCIPAL TARGET OF HELMS AND HIS ASSOCIATES IS SAID TO BE LAURENCE EAGLEBURGER, THE PRESUMPTIVE ASSISTANT SECRETARY FOR EUROPEAN AFFAIRS, WHOM THEY REGARD AS A TROJAN HORSE FOR KISSINGER. BUT THEY ARE ALSO SAID TO OBJECT TO JOHN HOLDRIDGE (ASSISTANT SECRETARY FOR FAR EAST AFFAIRS), CHESTER CROCKER (ASSISTANT SECRETARY FOR AFRICAN AFFAIRS) AND PAUL WOLFOWITZ (HEAD OF THE POLICY PLANNING STAFF). NONE OF THESE APPOINTMENTS HAS YET BEEN ANNOUNCED OFFICIALLY. A MEMBER OF HELMS'S STAFF HAS TOLD US THAT THE GROUP OF RIGHT WING REPUBLICANS OBJECT NOT SO MUCH TO ANY ONE OF THESE OR OTHER NAMES, AS TO THE GENERAL COMPLEXION OF THE SLATE OF PROSPECTIVE APPOINTEES, DOWN TO DEPUTY ASSISTANT SECRETARY, AS A WHOLE.

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5. HELMS, WHO VOTED AGAINST WEINBERGER'S CONFIRMATION AS SECRETARY OF DEFENSE AND HAS VOICED STRONG OBJECTIONS TO CARLUCCI'S NOMINATION AS DEPUTY SECRETARY, IS REFLECTING WIDESPREAD DISGRUNTLEMENT AMONG REAGAN'S LONG-STANDING SUPPORTERS ON THE FAR RIGHT OF THE REPUBLICAN PARTY, WHO ARE ANGRY AND DISMAYED AT THE EXTENT TO WHICH, SO FAR, REAGAN'S APPOINTMENTS BOTH TO THE ADMINISTRATION AND TO THE WHITE HOUSE STAFF HAVE BEEN DOMINATED BY MANAGERIAL FIGURES AND OFFICIALS ASSOCIATED WITH THE NIXON AND FORD ADMINISTRATIONS.

6. THREE CABINET MEMBERS REMAIN TO BE CONFIRMED BY THE SENATE: DAVID STOCKMAN (DIRECTOR OF OMB), JEANE KIRKPATRICK (AMBASSADOR TO THE UN) AND WILLIAM CASEY (DIRECTOR OF CENTRAL INTELLIGENCE). THE SENATE WILL VOTE ON THESE THREE ON 27 JANUARY.

FCO PASS SAVING TO ANKARA, ATHENS, BRUSSELS, COPENHAGEN, LISBON, LUXEMBOURG, OTTAWA, OSLO, ROME, REYKJAVIK, THE HAGUE, DUBLIN, UKREP BRUSSELS.

HENDERSON

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GRS 487

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FM WASHINGTON 212245Z JAN 81

TO ROUTINE F C O

TELEGRAM NUMBER 204 OF 21 JANUARY

INFO PARIS, BONN, UKDEL NATO,

INFO SAVING ALL C GS IN USA, UKMIS NEW YORK.

This does not argue very well for the conduct of business in the first few weeks of the Reagan administration.

And

THE REAGAN ADMINISTRATION.

1. TODAY'S WASHINGTON POST REPORTS THAT PRESIDENT REAGAN HAS COMPLETED HIS ECONOMIC POLICY TEAM BY SELECTING MURRAY WEIDENBAUM, A PROFESSOR AT WASHINGTON UNIVERSITY AND AN EXPERT ON BUSINESS DEREGULATION, AS CHAIRMAN OF THE COUNCIL OF ECONOMIC ADVISERS. BIOGRAPHICAL DETAILS WILL FOLLOW WHEN THIS APPOINTMENT IS MADE OFFICIAL.

mt

2. THE FULL SENATE YESTERDAY CONFIRMED WEINBERGER'S APPOINTMENT AS SECRETARY OF DEFENSE BY 97 TO 2. ONLY SENATOR HELMS (R NORTH CAROLINA) AND HIS PROTEGE THE NEWLY ELECTED SENATOR EAST, ALSO FROM NORTH CAROLINA, VOTED AGAINST WEINBERGER'S CONFIRMATION, ARGUING THAT HIS QUALITIES WERE NOT THOSE NEEDED IN A SECRETARY OF DEFENSE WHOSE PRIMARY TASK WAS TO REBUILD US MILITARY STRENGTH.

3. THE SENATE IS VOTING TODAY ON HAIG (SECRETARY OF STATE), REGAN (TREASURY) AND SMITH (ATTORNEY GENERAL). THE WHOLE CABINET IS EXPECTED TO BE CONFIRMED BY THE END OF THE WEEK.

4. ONE CONSEQUENCE OF PRESIDENT REAGAN'S SLOWNESS IN NAMING HIS CABINET HAS BEEN A CORRESPONDING DELAY IN APPOINTMENTS TO SUB-CABINET-LEVEL POSTS. THERE ARE 4000-ODD POSTS IN THE ADMINISTRATION SUBJECT TO PRESIDENTIAL APPOINTMENT; BUT THE IMPORTANT ONES ARE 87 DEPUTY SECRETARY AND UNDER SECRETARY POSTS, TOGETHER WITH ANOTHER 250 OR SO AT SENIOR POLICY-MAKING LEVEL. THE REAGAN TRANSITION STAFF, WHO ARE SAID TO BE PLANNING A COMPLETE PURGE OF ALL CARTER'S POLITICAL APPOINTEES, HAD HOPED TO HAVE 150-200 SENIOR OFFICIALS IN PLACE BY 20 JANUARY. SO FAR THEY HAVE ONLY A HANDFUL. THE NAMES OF SEVERAL SENIOR NOMINEES AT EG THE STATE DEPARTMENT AND TREASURY HAVE BEEN REPORTED IN

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/ THE PRESS

CONFIDENTIAL

THE PRESS (MY TELNOS 85 AND 98) BUT THEY HAVE YET TO BE MADE OFFICIAL. CARLUCCI'S APPOINTMENT AS DEPUTY TO WEINBERGER AT DEFENSE IS OFFICIAL (ALTHOUGH HE HAS NOT YET BEEN CONFIRMED) BUT THE IDENTITY OF HAIG'S DEPUTY AT STATE IS STILL IN DOUBT.

5. ALL THESE APPOINTMENTS ARE SUBJECT TO CONFIRMATION BY THE SENATE AND THIS PROCESS IS EXPECTED TO CONTINUE THROUGHOUT FEBRUARY AND BEYOND. PENDING CONFIRMATION, NEW APPOINTEES WILL OCCUPY THEIR DESKS AND DEAL WITH DAY TO DAY BUSINESS, BUT ARE NOT EMPOWERED TO ACT OFFICIALLY. THEY WILL ALSO BE PREOCCUPIED WITH PREPARING THEMSELVES FOR THEIR CONFIRMATION HEARINGS.

6. HEARINGS BY THE APPROPRIATE SENATE COMMITTEE ARE NORMALLY HELD IN ORDER OF SENIORITY OF THE NEW NOMINEES. HEARINGS ON STOESSEL'S APPOINTMENT AS UNDER SECRETARY FOR POLITICAL AFFAIRS AT STATE ARE PLANNED FOR 26 JANUARY. BUT THE DELAY IN NAMING A DEPUTY SECRETARY OF STATE COULD PUT BACK THE STATE DEPARTMENT HEARINGS. ALL US AMBASSADORS HAVE, AS IS CUSTOMARY, SUBMITTED THEIR RESIGNATIONS. THOSE WHO ARE ASKED TO STAY ON IN THEIR PRESENT POSTS DO NOT HAVE TO BE RECONFIRMED BUT ALL NEW APPOINTEES MUST BE CONFIRMED BY THE SENATE.

HENDERSON

[THIS TELEGRAM WAS NOT ADVANCED]

FCO/WHITEHALL

NAD

SUBJECT



USA

10 DOWNING STREET

THE PRIME MINISTER

20 January, 1981.

PRIME MINISTER'S

PERSONAL MESSAGE

SERIAL No. 78/81

Dear Mr. President,

I should like to send you my warm thanks for the close friendship and co-operation, mirroring the relations between our two countries, which we have enjoyed during your term of office. I have admired your courage in tackling the formidable problems which have confronted the United States and the Free World - notably in regard to the hostage issue, the successful resolution of which is bringing your Presidency to such a splendid conclusion.

On a more personal note, I should like to say how much I appreciated your hospitality in Washington in 1979. My colleagues join me in sending you our very best wishes for the future.

Yours sincerely
Margaret Thatcher

The President of the United States of America

GRS 450

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FM BONN 201020Z JAN 81

TO PRIORITY FCO

TELEGRAM NUMBER 47 OF 20 JANUARY

INFO PRIORITY WASHINGTON ROUTINE PARIS UKDEL NATO

INFO SAVING OTHER NATO POSTS BMG BERLIN

mt Read full

THE NEW US ADMINISTRATION: FRG VIEWS

1. ALTHOUGH CHANCELLOR SCHMIDT FORMED A POSITIVE ASSESSMENT OF REAGAN WHEN THEY MET LAST NOVEMBER, AND THE APPOINTMENT OF HAIG AS SECRETARY OF STATE HAS BEEN GENERALLY WELCOMED HERE, THE BALANCE OF GERMAN MINISTERIAL AND OFFICIAL OPINION ABOUT THE INCOMING US ADMINISTRATION IS MARKEDLY CAUTIOUS. SCHMIDT AND GENSCHER HAVE BOTH CONTINUED TO MAKE CONFIDENT AND WARMLY APPROVING NOISES IN PUBLIC: BUT IN PRIVATE A MORE SCEPTICAL AND APPREHENSIVE NOTE IS DISCERNIBLE. IN THE WORDS OF AN INFLUENTIAL OFFICIAL IN THE CHANCELLOR'S OFFICE, NOTHING COULD BE WORSE THAN CARTER AND HIS MAFIA: BUT THE WAY AHEAD IN US/FRG RELATIONS IS QUOTE STILL STREWN WITH LANDMINES UNQUOTE.

2. REAGAN'S ECONOMIC APPOINTEES ARE REGARDED AS UNKNOWN QUANTITIES. THEY AND THE REST OF THE LEADING MEMBERS OF THE TEAM ARE BELIEVED TO BE COMPETENT BUT NOONE KNOWS VERY MUCH ABOUT THEM. THE IMPORTANT EXCEPTION IS HAIG. THE GERMANS RECOGNISE THAT HE WILL BE TOUGH AND DIFFICULT TO HANDLE: BUT THEY FEEL HE HAS THE SUPREMELY GERMAN QUALITY OF BEING PREDICTABLE AND THAT HIS TIME IN BRUSSELS HAS GIVEN HIM A FEEL FOR EUROPE AND ITS PROBLEMS, PARTICULARLY IN THE FIELD OF DEFENCE POLICY. HIS REMARKS BEFORE THE SENATE ABOUT EUROPEAN DEFENCE SPENDING (WASHINGTON TELEGRAM NO. 90) WERE WARMLY RECEIVED HERE (AS WERE WEINBERGER'S REMARKS IN THE SAME SENSE EARLIER). THIS GOOD IMPRESSION HAS BEEN REINFORCED BY THE APPOINTMENT TO THE STATE DEPARTMENT TEAM OF STOESSEL AND EAGLEBURGER (MY TELEGRAM NO.31). THE LIKELY INFLUENCE OF KISSINGER ON THE FORMULATION OF U.S. FOREIGN POLICY IS ALSO SEEN AS BEING ON BALANCE A PLUS, ALBEIT WITH RESERVATIONS.

3. BUT THE GERMANS ARE FAR FROM CONFIDENT THAT THE NEW ADMINISTRATION WILL SHOW REAL UNDERSTANDING FOR THE EUROPEAN APPROACH TO THE PROBLEMS OF EAST/WEST RELATIONS OR THAT THE PURSUIT OF ARMS CONTROL WILL RANK SUFFICIENTLY HIGH IN THE NEW ADMINISTRATION'S ORDER OF PRIORITIES. THE LATTER ISSUE HAS ACQUIRED SHARPENED DOMESTIC SIGNIFICANCE IN THE FRG RECENTLY IN VIEW OF THE INCREASED RESTLESSNESS WITHIN THE SPD AT THE ABSENCE OF PROGRESS ON SALT II, HIGHLIGHTED BY KARSTEN VOIGHT'S CLAIM (MY TELEGRAM NO.25 NOT TO ALL) THAT NON-RATIFICATION OF SALT II WOULD CALL THE NATO DOUBLE DECISION INTO QUESTION. THE FACT THAT HAIG DID NOT MENTION DETENTE IN HIS TESTIMONY TO THE SENATE WAS WIDELY NOTED: AND THERE IS ALSO CONCERN THAT THE NEW ADMINISTRATION WILL TEND TO SEE THE THIRD WORLD PROBLEMS LARGELY

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IN AN EAST/WEST PERSPECTIVE. US PRESSURE ON ITS EUROPEAN ALLIES FOR A LARGER DEFENCE CONTRIBUTION AND FOR PARTICIPATION IN (OR SUPPORT FOR) DEFENCE DEPLOYMENTS OUTSIDE THE NATO AREA IS SEEN AS ANOTHER, RELATED AREA OF PROBABLE FRICTION. ALL IN ALL, THE GERMANS SEE THE BAROMETER FOR US-EUROPEAN RELATIONS AS POINTING TO UNSETTLED.

FCO PLEASE PASS SAVING TO ANKARA ATHENS BRUSSELS COPENHAGEN THE HAGUE LISBON LUXEMBOURG OSLO OTTAWA REYKJAVIK ROME

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FCO/WHITEHALL, D

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[REPEATED AS
REQUESTED]

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CONFIDENTIAL



10 DOWNING STREET

From the Private Secretary

19 January 1981

Messages to President Carter

I enclose the signed texts of two messages from the Prime Minister to President Carter. One of these - that about the hostages - you already have. The other is an amended version of the Prime Minister's earlier message to President Carter marking the end of his Presidency. I should be grateful if you could arrange for these to be telegraphed to Washington as soon as possible.

M. A. PATTISON

Francis Richards, Esq.,
Foreign and Commonwealth Office.

HS

GC.



10 DOWNING STREET

From the Private Secretary

19 January 1981

MESSAGE FROM VICE-PRESIDENT MONDALE

I enclose a copy of a message which the Prime Minister received before the weekend from Vice-President Mondale. I also enclose the text of a letter which the Prime Minister has written in reply. I should be grateful if you could arrange for its delivery in Washington as soon as possible.

M. O'D. B. ALEXANDER

Francis Richards, Esq.,
Foreign and Commonwealth Office.

GB



10 DOWNING STREET

From the Private Secretary

19 January, 1981.

I am replying on the Prime Minister's behalf to your letter to her of 16 January.

The message which you enclosed from President Carter has been placed before the Prime Minister.

M. O'D. B. ALEXANDER

His Excellency the Honourable Kingman Brewster

A handwritten signature in dark ink, appearing to be 'KRB', located at the bottom right of the page.

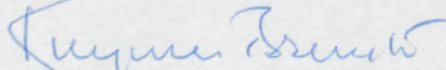
EMBASSY OF THE
UNITED STATES OF AMERICA
LONDON

January 16, 1981

Dear Prime Minister:

I have been asked to deliver the enclosed message to you from President Carter, which was received at the Embassy this morning.

Sincerely,


Kingman Brewster
Ambassador

Enclosure

The Rt. Hon. Margaret Thatcher, M. P.,
Prime Minister,
London.

SUBJECT.

PRIME MINISTER'S

PERSONAL MESSAGE

SERIAL No. T 4 A / 80.

January 16, 1981

cc. Master

ops

Dear Margaret:

Before leaving the White House, I want to express to you my appreciation for your personal support, counsel and friendship. Our meetings and frequent communications have been a source of great strength to me, as well as a reaffirmation of the shared values and perceptions of our two peoples.

During these past years, we have together faced severe international problems. I believe the Alliance has achieved an important degree of unity in responding to adversity -- in no small measure because of your leadership. I wish you well in addressing the challenges that lie ahead.

With all best wishes,

Sincerely,

/s/

Jimmy Carter



10 DOWNING STREET

THE PRIME MINISTER

16 January 1981

Dear Mr. Vice-President,

Thank you so much for your letter of 9 December. I greatly appreciate your courtesy in writing.

I too have welcomed the opportunity of working together on the problems faced by our two countries. Like you I believe that the relationship between our two countries is in good shape and that the North Atlantic Alliance can tackle the difficult issues ahead with confidence.

I send you my very best wishes for the future.

Yours sincerely
Margaret Thatcher

The Honourable Walter F. Mondale



10 DOWNING STREET

PRIME MINISTER

— 9/12/80
The attached letter from
Vice-President Mondale has
taken over a month to reach
us. It is, I suspect, one
of many. Nonetheless it is
a courteous gesture and you
may wish to reply. I attach
a possible text.

Letter should begin:

Paul
"Dear Mr. Vice-President"

16 January 1981

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FM WASHINGTON 142250Z JAN 81

TO ROUTINE F C O


TELEGRAM NUMBER 132 OF 14 JANUARY 1981

INFO PARIS BONN UKDEL NATO MOSCOW CAIRO (FOR PS/S OF S)

INFO SAVING ANKARA LISBON OTTAWA OSLO REYKJAVIK UKMIS NEW YORK

ATHENS BRUSSELS COPENHAGEN DUBLIN ROME LUXEMBOURG THE HAGUE UKREP


BRUSSELS

*To glance.*MY TELNO 119: CONFIRMATION HEARINGS ON ALEXANDER HAIG 

1. THE SENATE FOREIGN RELATIONS COMMITTEE YESTERDAY TURNED ITS ATTENTION TO HAIG'S ROLE DURING HIS PERIODS OF SERVICE AT THE WHITE HOUSE. HE WAS SUBJECTED TO CLOSE QUESTIONING FROM SENATORS SARBANES (D MARYLAND), AND TSONGAS (D MASSACHUSETTS) ABOUT HIS VIEWS ON THE BOMBING OF CAMBODIA, HIS ROLE IN OPERATIONS AGAINST THE ALLENDE GOVERNMENT IN CHILE, HIS JUDGEMENT ABOUT WIRE-TAPPING INCIDENTS UNDER KISSINGER AND ABOUT WATERGATE.

2. HAIG DEFENDED THE BOMBING OF CAMBODIA ON THE GROUNDS THAT IT WOULD HAVE BEEN SELF-DEFEATING TO PERMIT THE NORTH VIETNAMESE TO ENJOY SANCTUARY IN CAMBODIA. THE BOMBING WAS NEITHER IMMORAL NOR AN ABUSE OF POWER. HE DEFENDED HIS ROLE IN RESPECT OF CHILE AND THE WIRE-TAPPING ALLEGATIONS ON THE GROUNDS THAT, IN THE FIRST CASE, HE WAS SIMPLY A CHANNEL FOR PASSING REPORTS AND, IN THE SECOND, THAT HE MERELY CARRIED OUT INSTRUCTIONS, HAVING SOUGHT ASSURANCES THAT THE DECISIONS TAKEN BY THE PRESIDENT, THE ATTORNEY-GENERAL AND THE DIRECTOR OF THE FBI CONFORMED TO STANDARD PROCEDURES

3. WHEN THE COMMITTEE TURNED TO WATERGATE THE EXCHANGES BECAME TENSE AND TESTY WITH SARBANES (WHO MADE HIS NAME IN THE NIXON IMPEACHMENT HEARINGS) REPEATEDLY TRYING TO EXTRACT FROM HAIG QUOTE A VALUE JUDGEMENT UNQUOTE ABOUT THE WATERGATE PERIOD. HAIG COMPARED THE WATERGATE PERIOD TO THE WORST OF THE MCCARTHY ERA, SAYING THAT IT WAS ONE OF THE GREATEST TRAGEDIES THAT HAD BEFALLEN THE UNITED STATES AND THAT UNDOUBTEDLY MISTAKES HAD BEEN MADE QUOTE ON BOTH SIDES UNQUOTE. HE HAD TRIED TO DO HIS BEST, IN THE CIRCUMSTANCES HE HAD INHERITED, TO KEEP THE COUNTRY ON AN EVEN KEEL TO THE DEGREE THAT HIS AUTHORITY AND RESPONSIBILITIES PROVIDED. HE HAD NEVER WILLINGLY, CONSCIOUSLY OR UNCONSCIOUSLY PARTICIPATED IN AN ACT WHICH HE CONSIDERED TO BE IMMORAL AND, ABOVE ALL, ILLEGAL. HIS VOICE RISING WITH ANGER AND EMOTION, HAIG SAID THAT HE HAD NEVER PARTICIPATED IN ANYTHING THAT WAS WRONG OR ILLEGAL IN 37 YEARS OF MILITARY SERVICE TO HIS COUNTRY. NOBODY HAD A MONOPOLY ON VIRTUE, QUOTE NOT EVEN YOU SENATOR UNQUOTE.

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4. LATER, PROBABLY REALISING THAT HE HAD ANTAGONISED MEMBERS OF THE COMMITTEE BY HIS EVASIVE AND HOSTILE MANNER, HAIG MADE A FORMAL STATEMENT SAYING THAT DURING THE WATERGATE PERIOD ACTIONS HAD BEEN COMMITTED WHICH WERE IMPROPER, ILLEGAL AND IMMORAL. HE COULD NOT BRING HIMSELF TO RENDER JUDGEMENT ON PRESIDENT NIXON OR HENRY KISSINGER FOR WHOM HE HAD WORKED INTIMATELY BUT HE ASSURED THE COMMITTEE THAT AS SECRETARY OF STATE IT WOULD BE HIS FIRM INTENTION TO FULFIL HIS RESPONSIBILITIES IN ACCORDANCE WITH THE LAW AND THE CONSTITUTION.

5. QUESTIONS TO HAIG ARE CONTINUING TODAY AND THE FOREIGN RELATIONS COMMITTEE WILL NOT NOW VOTE ON HAIG'S NOMINATION UNTIL THURSDAY MORNING 15 JANUARY AT THE EARLIEST. THE REPUBLICAN LEADERSHIP HAD HOPED TO HAVE HAIG CONFIRMED BY VOTE OF THE FULL SENATE ON THE AFTERNOON OF 20 JANUARY IE AS SOON AS POSSIBLE AFTER REAGAN'S INAUGURATION. THIS TIMING MAY SLIP. IF SO, DAVID NEWSOM (THE CURRENT UNDER SECRETARY FOR POLITICAL AFFAIRS) WILL BE ACTING SECRETARY OF STATE FOR A DAY OR TWO. HAIG'S CONFIRMATION ITSELF IS NOT IN DOUBT.

FCO PSE PASS SAVING TO: OTTAWA, OSLO, ANKARA, LISBON, REYKJAVIK, ATHENS, BRUSSELS, COPENHAGEN, DUBLIN, ROME, LUXEMBOURG, THE HAGUE, UKREP BRUSSELS.

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*FCO/WH-FEHALL
NAD.*

THIS TELEGRAM
WAS NOT
ADVANCED

(REPEATED AS REQUESTED)

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SUBJECT.

T 3A/81.

520
PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T 3A/81.

THE WHITE HOUSE
WASHINGTON

January 13, 1981

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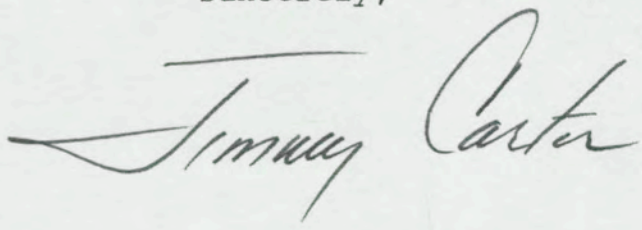
Dear Margaret:

Before leaving the White House, I want to express to you my appreciation for your personal support, counsel and friendship. Our meetings and frequent communications have been a source of great strength to me, as well as a reaffirmation of the shared values and perceptions of our two peoples.

During these past years, we have together faced severe international problems. I believe the Alliance has achieved an important degree of unity in responding to adversity -- in no small measure because of your leadership. I wish you well in addressing the challenges that lie ahead.

With all best wishes,

Sincerely,



The Right Honorable
Margaret R. Thatcher, M.P.
Prime Minister
London

CONFIDENTIAL

GR 650
CONFIDENTIAL

FM WASHINGTON 132347Z JANUARY 81
TO ROUTINE FCO
TELEGRAM NUMBER 119 OF 13 JANUARY
INFO PARIS, BONN, UKDEL NATO, MOSCOW, CAIRO (FOR PS/SOFS)
INFO SAVING ALL OTHER EEC POSTS, ANKARA, LISBON, OTTAWA,
OSLO, REYKJAVIK, UKMIS NEW YORK, HMCN NEW YORK.

MY TELNO 87: CONFIRMATION HEARINGS ON ALEXANDER HAIG.

1. HAIG HAS NOW UNDERGONE NEARLY 30 HOURS OF QUESTIONING AT HIS CONFIRMATION HEARINGS IN THE SENATE FOREIGN RELATIONS COMMITTEE, INCLUDING FOUR HOURS OF CONFIDENTIAL TESTIMONY LAST NIGHT. ALTHOUGH HAIG HAS REPLIED CAUTIOUSLY ON SENSITIVE ISSUES, HE HAS HAD LITTLE TROUBLE DEALING WITH THE COMMITTEE, MOST OF WHOM (THE CHAIRMAN, SENATOR PERCY, IN PARTICULAR) HAVE BEEN UNIMPRESSIVE. AN EDITORIAL IN TODAY'S NEW YORK TIMES, RECOMMENDING THAT HIS NOMINATION BE APPROVED, DESCRIBES HAIG AS HAVING BEEN QUOTE TOUGH AND FLEXIBLE, ARTICULATE AND FUZZY, DEVIOUS AND DIRECT: A SECRETARY OF STATE UNQUOTE.

2. WE ARE REPORTING SEPARATELY HAIG'S REPLIES TO QUESTIONS OF INTEREST. HE HAS FOLLOWED THE MAIN LINES OF HIS OPENING STATEMENT (MY TELEGRAM UNDER REFERENCE), WITH REPEATED EMPHASIS ON THE NEED TO COUNTER THE THREAT OF INCREASED SOVIET MILITARY POWER AND THE ASSERTION THAT DECISIONS DESIGNED TO ACHIEVE A DRAMATIC IMPROVEMENT IN U.S. DEFENCE CAPABILITIES SHOULD BE TAKEN BEFORE EMBARKING ON NEW ARMS CONTROL NEGOTIATIONS WITH THE SOVIET UNION. BUT SOME OF HIS ANSWERS WILL NOT HAVE PLEASED THE REPUBLICAN RIGHT WING. HE HAS DECLARED HIS SUPPORT FOR THE PANAMA CANAL TREATIES, ENDORSED THE ZIMBABWE SETTLEMENT (SAYING THAT HE HAD DISCUSSED IT AT LENGTH WITH YOU), REAFFIRMED HIS SUPPORT FOR THE STRENGTHENING OF RELATIONS WITH CHINA AND DECLINED TO COMMIT HIMSELF TO THE REPUBLICAN PLATFORM ON THE GROUNDS THAT HE HAD NO PART IN DRAFTING IT.

3. HAIG HAS OCCASIONALLY RUN INTO TROUBLE. UNDER PRESSURE FROM SENATOR HELMS, HE HAS HAD TO AGREE TO GIVE THE REPUBLICAN PLATFORM QUOTE THE GREATEST WEIGHT UNQUOTE. UNDER CLOSE QUESTIONING FROM SENATOR TSONGAS (D MASSACHUSETTS) HE HAD TO ADMIT THAT U.S. INTERFERENCE IN CHILE AT THE TIME OF ALLENDE WAS A BREACH OF THE SPIRIT OF THE OAS CHARTER, THOUGH HE ATTEMPTED TO JUSTIFY IT BY REFERENCE TO U.S. INTERESTS OVERALL IN THE CIRCUMSTANCES AT THE TIME.

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4. THESE PROBLEMS HAVE HOWEVER, BEEN INSIGNIFICANT COMPARED WITH THE BATTLE THAT IS DEVELOPING OVER THE WATERGATE TAPES. UNDER PRESSURE FROM THE DEMOCRATIC MINORITY, SENATOR PERCY HAS SIGNED A SUBPOENA ORDERING THE NATIONAL ARCHIVES TO PRODUCE THE INDEX AND LOG OF TAPED CONVERSATIONS BETWEEN PRESIDENT NIXON AND GENERAL HAIG AT THE HEIGHT OF THE WATERGATE SCANDAL (MAY-JULY 1973). IT SEEMS LIKELY THAT NIXON'S LAWYERS MAY GO TO COURT TO BLOCK RELEASE OF THE LOG WHICH COVERS OVER 100 HOURS OF RECORDINGS. THE SENATE FOREIGN RELATIONS COMMITTEE COULD THEN FIND ITSELF IN A LEGAL WRANGLE WITH NIXON WHICH COULD LAST A VERY LONG TIME. AND EVEN IF THEY OBTAIN THE LOG, TRANSCRIPTION OF THE TAPES WOULD TAKE SEVERAL MONTHS, ACCORDING TO THE NATIONAL ARCHIVIST.

5. THE REPUBLICANS (WHO NOW HAVE A BUILT-IN MAJORITY ON THE COMMITTEE) ARE DETERMINED TO COME TO A VOTE ON HAIG'S NOMINATION NO LATER THAN WEDNESDAY, 14 JANUARY. THE DEMOCRATS ARE EQUALLY DETERMINED THAT, PENDING THE OUTCOME ON THE TAPES, THE FILE ON HAIG'S NOMINATION SHOULD NOT BE CLOSED EVEN IF THEY VOTE TO CONFIRM HIM. THIS RAISES VARIOUS QUESTIONS ABOUT WHETHER THE SENATE, HAVING APPROVED HAIG'S NOMINATION, COULD SUBSEQUENTLY REOPEN THE CASE. IN PRACTICE, OF COURSE, THE BATTLE OVER THE TAPES WOULD, AS REPUBLICAN SENATOR LUGAR PUT IT, BE A SWORD OF DAMOCLES HANGING OVER HAIG AND COULD HAVE SOME EFFECT ON HIS PERFORMANCE AS SECRETARY OF STATE. EVEN IF HAIG DID NOT ACT ILLEGALLY AT THE TIME OF WATERGATE THE TAPES MAY SHOW, ACCORDING TO TODAY'S NEW YORK TIMES, THAT HE HELPED PRESIDENT NIXON TO "STONEWALL THE LAW", PROBABLY WITHOUT HIMSELF BREAKING IT. THE PRESS (AND PARTICULARLY THE WASHINGTON POST WHICH HAS OPPOSED HAIG'S NOMINATION AND IS CONSTANTLY TRYING TO RELIVE THE SUCCESS OF ITS WATERGATE REVELATIONS) CAN BE EXPECTED TO PURSUE THE ISSUE.

FCO PASS SAVING ANKARA, LISBON, OTTAWA, OSLO, REYKJAVIK, ATHENS, BRUSSELS, COPENHAGEN, DUBLIN, LUXEMBOURG, ROME, THE HAGUE, UKREP BRUSSELS.

HENDERSON

FCO/WHITEHALL
NAD

[REPEATED AS REQUESTED]
[THIS TELEGRAM WAS NOT ADVANCED]

USA

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CONFIDENTIAL

FM BONN 121615Z JAN 81
TO ROUTINE FCO
TELEGRAM NUMBER 31 OF 12 JANUARY
INFO ROUTINE WASHINGTON PARIS MOSCOW

*Stoessel, who will be No 3
in the State Dept, is at present
US Ambassador in Bonn.
A good appointment*

WASHINGTON TELNO 5: APPOINTMENTS AT THE STATE DEPARTMENT:
WALTER STOESEL

Thus

1. THE GERMANS ARE PLEASED BY THE APPOINTMENT. GENSCHER TOLD ME SO HIMSELF AND SO DID A REPRESENTATIVE SELECTION OF WEST GERMANS WHOM I SAW IN BERLIN AT THE WEEKEND AND WHO WERE OBSERVED OFFERING WHAT SEEMED TO BE GENUINE CONGRATULATIONS TO STOESEL HIMSELF. THIS IS NOT SURPRISING. ONE OF THE GERMAN COMPLAINTS OVER THE FOUR YEARS OF THE CARTER ADMINISTRATION HAS BEEN THAT, WITH THE DECLINE OF THE EAST COAST ESTABLISHMENT AND THE RISE OF THE GEORGIA MAFIA, THERE WAS NO-ONE IN WASHINGTON WHO UNDERSTOOD THEIR PROBLEMS. WITH HAIG AS SECRETARY OF STATE AND STOESEL AND EAGLEBERGER IN KEY POSITIONS, THEY WILL NO LONGER HAVE THESE GROUNDS FOR COMPLAINT.

2. STOESEL'S TIME IN BONN HAS BEEN A DIFFICULT ONE. THE CONTROVERSY SURROUNDING GERMAN/AMERICAN RELATIONS OVER THE WHOLE PERIOD OF HIS MISSION HAS MEANT THAT HE HAS HAD A UNENVIABLE JOB NOT ONLY INTERPRETING THE WAYS OF WASHINGTON TO BONN AND VICE VERSA, BUT ALSO IN RECONCILING THE SOMETIMES VIOLENT DIFFERENCES OF OPINION BOTH WITHIN HIS OWN EMBASSY. THE FACT THAT HE HAS RETAINED THROUGHOUT THE CONFIDENCE OF THE BONN GOVERNMENT AND THE RESPECT OF WEST GERMAN PUBLIC OPINION GENERALLY SPEAKS VOLUMES FOR HIS PROFESSIONAL ABILITIES AND PERSONAL QUALITIES. HE HAS BEEN A SENSIBLE AND COOPERATIVE COLLEAGUE IN OUR QUADRIPARTITE DEALINGS WITH THE WEST GERMANS IN BONN AND WITH ABRASIMOV IN EAST BERLIN.

3. I WOULD ONLY ADD TO SIR N HENDERSON'S PERCEPTIVE CHARACTER SKETCH, WITH WHICH I AGREE, THAT STOESEL WAS ALSO US REPRESENTATIVE DURING NEGOTIATIONS WITH THE POLITICAL DIRECTORS OF THE NINE, WHEN I REPRESENTED THE UK DURING THE ABORTIVE QUOTE YEAR OF EUROPE UNQUOTE IN 1973, WHEN HE WAS ASSISTANT SECRETARY FOR EUROPEAN AFFAIRS. HE RAN IN DOUBLE HARNESS WITH HAL SONNENFELT FROM THE WHITE HOUSE AND WAS CAST IN THE ROLE OF STATE DEPARTMENT NICE GUY, WHICH HE STILL IS TO SONNENFELT'S WHITE HOUSE BAD GUY. SO WITH HIM AS UNDER SECRETARY, UNITED STATES POLICY SHOULD NOT ACT IN IGNORANCE OF THE SOVIET UNION, POLAND, THE FEDERAL REPUBLIC OF GERMANY AND THE EUROPEAN COMMUNITY GENERALLY, WHICH SHOULD BE A BONUS.

WRIGHT

[COPIES SENT TO NO 10 DOWNING ST]

STANDARD

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CABINET OFFICE

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FM WASHINGTON 092350Z JAN 81

TO ROUTINE F C O

TELEGRAM NUMBER 87 OF 9 JANUARY 1981,

INFO PARIS, BONN, UKDEL NATO, MOSCOW, CAIRO,

INFO SAVING ALL OTHER E E C POSTS AND ANKARA, LISBON, OTTAWA, OSLO, REYKJAVIK, UKMIS NEW YORK.

CONFIRMATION HEARINGS ON SECRETARY OF STATE DESIGNATE ALEXANDER HAIG

1. HAIG'S CONFIRMATION HEARINGS OPENED IN THE SENATE FOREIGN RELATIONS COMMITTEE TODAY. THEY ARE EXPECTED TO CONTINUE ON SATURDAY AND PROBABLY INTO NEXT WEEK. THE FIRST MORNING'S SESSION WAS TAKEN UP WITH HAIG'S INTRODUCTORY STATEMENT, A FIRST ROUND OF QUESTIONS FROM COMMITTEE MEMBERS AND A WRANGLE OVER WHETHER OR NOT THE COMMITTEE SHOULD SUBPOENA CERTAIN DOCUMENTS AND TAPES RELATING TO HAIG'S PREVIOUS SERVICE IN GOVERNMENT, AS REQUESTED BY THE RANKING MINORITY MEMBER SENATOR PELL.

2. HAIG HAS TAKEN THE UNUSUAL STEP OF VOLUNTARILY TESTIFYING ON OATH. FOLLOWING ARE THE MAIN POINTS OF HAIG'S PREPARED STATEMENT.

3. HAIG OPENED BY REFERRING TO HIS PREVIOUS GOVERNMENT SERVICE. HIS ROLE IN WATERGATE HAS ALREADY BEEN CLOSELY SCRUTINISED. HE HAD PREVIOUSLY TESTIFIED EIGHT TIMES BEFORE CONGRESSIONAL COMMITTEES OR IN COURT AND NO INVESTIGATION HAD FOUND ANY CULPABILITY ON HIS PART. COMMENTING ON HIS ROLE DURING THE WATERGATE PERIOD, HAIG SAID HE HAD OPERATED ON THE ASSUMPTION THAT NIXON, LIKE ANYONE ELSE, WAS ENTITLED TO BE PRESUMED INNOCENT UNLESS AND UNTIL PROVED GUILTY. WITHIN THAT CONTEXT HAIG HAD SEEN HIS OVERRIDING DUTY AS BEING TO PRESERVE THE OFFICE OF THE PRESIDENCY FOR THE GOOD OF THE NATION AND HE HAD WORKED WITHIN THE LAW TO THIS END.

4. TURNING TO HIS VIEW OF THE INTERNATIONAL SITUATION, HAIG REFERRED TO THE MANY AREAS OF TENSION IN THE WORLD, FROM THE THREAT OF SOVIET INTERVENTION IN POLAND TO THE FRAGILE TRUCE IN KOREA, ALL OF WHICH MADE THE OUTLOOK ESPECIALLY DANGEROUS. BUT HE REJECTED THE IDEA THAT THE 80'S MUST BE A DECADE OF CRISIS, WHICH IMPLIED THAT THE UNITED STATES WOULD BE HELPLESS TO DO MORE THAN REACT TO EVENTS. AMERICAN STATESMANSHIP MUST AND COULD BE MOBILISED TO MASTER PROBLEMS AND DEFUSE CRISES BEFORE THEY AROSE. BUT U S IDEALS MUST BE RECONCILED WITH THE REALITIES OF THE WORLD AS IT WAS. AMONGST THOSE REALITIES HAIG INSTANCED THE DIFFUSION OF INTERNATIONAL POWER AND THE READINESS OF MANY NATIONS TO RESORT TO VIOLENCE TO ACHIEVE THEIR ENDS, WHICH MEANT THAT "ARTIFICIAL OPERATING AREAS" FOR THE ALLIANCE WHICH HAD BEEN ESTABLISHED IN SIMPLER TIMES MUST BE RE-EXAMINED; THE MAGNITUDE OF THE SOCIO-ECONOMIC CHALLENGES FACING THE

/WESTERN WORLD:

WESTERN WORLD; THE FACT THAT, AS THE IRAQ/IRAN WAR DEMONSTRATED, INSTABILITY WAS MOST LIKELY WHERE ITS EFFECT ON THE INTERNATIONAL ECONOMY WOULD BE GREATEST; AND THE ENORMOUS DIFFERENCES BETWEEN DEVELOPING COUNTRIES, MISLEADINGLY TERMED THE THIRD WORLD, FAILURE TO PERCEIVE WHICH HAD TOO OFTEN LED TO MISTAKES IN FOREIGN POLICY.

5. BUT THE MOST IMPORTANT REALITY WAS THE TRANSFORMATION OF SOVIET MILITARY POWER FROM ESSENTIALLY A LAND ARMY DEDICATED TO PRESERVING SOVIET NATIONAL SECURITY INTO A GLOBAL LAND, SEA AND AIR INTERVENTION CAPABILITY. THIS CENTRAL STRATEGIC PHENOMENON AMOUNTED TO PERHAPS THE MOST COMPLETE REVERSAL OF GLOBAL POWER RELATIONSHIPS EVER IN PEACE-TIME. IF UNCHECKED, THE GROWTH OF SOVIET MILITARY POWER WOULD PARALYSE WESTERN POLICIES, AND OTHER DESIRABLE BUT SUBORDINATE GOALS WOULD BE IMPOSSIBLE TO ACHIEVE IN AN ENVIRONMENT DOMINATED BY VIOLENCE AND TERRORISM.

6. THE UNITED STATES MUST SEEK ACTIVELY TO SHAPE EVENTS, BUT IT COULD NOT DO SO ACTING ALONE; IT MUST FORGE A CONSENSUS WITH LIKE-MINDED POWERS. ACTING COLLECTIVELY THE WEST COULD SHAPE A PEACEFUL WORLD.

7. U S FOREIGN POLICY MUST HAVE THREE BASIC QUALITIES:

(I) CONSISTENCY, IMPLYING A LONG TERM CONCEPT OF U S INTERESTS AND A STRATEGY TO PROMOTE THEM.

(II) RELIABILITY: U S POWER SHOULD NOT BE LIGHTLY COMMITTED, BUT ONCE COMMITTED THE TASK SET MUST BE CARRIED THROUGH.

(III) BALANCE, BOTH IN THE APPROACH TO INDIVIDUAL ISSUES AND IN A RECOGNITION OF THE COMPLEXITY OF MANY PROBLEMS AND OF COMPETING PRESSURES AND AIMS. FOR EXAMPLE, VERIFIABLE AND EQUITABLE ARMS CONTROL AGREEMENTS WERE NECESSARY, BUT NOT ON TERMS WHICH ONLY INCREASED INSTABILITY. ANOTHER NAME FOR THIS BALANCE WAS LINKAGE, TO WHICH PRESIDENT REAGAN WAS COMMITTED. IN AN INTERDEPENDENT WORLD LINKAGE WAS INEVITABLE.

8. IN ORDER TO RESTORE THE U S CAPACITY TO CONDUCT AN EFFECTIVE FOREIGN POLICY THREE THINGS WERE NECESSARY:

(I) THE PRESIDENT'S CONSTITUTIONAL RESPONSIBILITY FOR THE CONDUCT OF FOREIGN POLICY MUST BE REESTABLISHED. THE UNITED STATES MUST SPEAK WITH ONE VOICE, THE PRESIDENT'S. THE PRESIDENT NEEDED ONE INDIVIDUAL TO FORMULATE, CONDUCT AND EXPLAIN HIS FOREIGN POLICY, NAMELY THE SECRETARY OF STATE. THE NATIONAL SECURITY ADVISER SHOULD AND WOULD FULFIL A STAFF ROLE.

(II) CONGRESSIONAL BIPARTISANSHIP IN FOREIGN POLICY MUST BE RESTORED. THIS MEANT THAT THERE MUST BE REAL CONSULTATION AND PARTNERSHIP BETWEEN THE PRESIDENT AND CONGRESS, SINCE THE CONGRESS WOULD NOT GIVE THE PRESIDENT THE NECESSARY DISCRETION TO CONDUCT FOREIGN POLICY UNLESS IT WERE SATISFIED WITH HIS AIMS AND PURPOSES.

(III) THE EXPERTISE OF CAREER FOREIGN SERVICE PROFESSIONALS MUST BE FULLY UTILISED IN THE FORMULATION AND CONDUCT OF FOREIGN POLICY.

9. IN ADDITION, THE UNITED STATES MUST MOBILISE ALL ITS RESOURCES. IT WAS STILL THE LARGEST AND STRONGEST ECONOMY ON EARTH; THE U S COULD AND MUST RESTORE ITS ECONOMIC STRENGTH IN ORDER FOR ITS FOREIGN POLICY TO SUCCEED. THE UNITED STATES POSSESSED MILITARY POWER WHICH NO ADVERSARY COULD IGNORE. AMERICA'S ALLIANCES MUST BE ADAPTED TO MEET NEW PROBLEMS. WE SHOULD NOT BECOME PREOCCUPIED WITH DEBATES OVER WHO WAS DOING MORE; THE CHALLENGES OF THE 80'S WOULD REQUIRE THAT WE ALL DID MORE.

10. WE SHALL BE REPORTING SEPARATELY ON HAIG'S ANSWERS TO THE QUESTIONS PUT BY COMMITTEE MEMBERS.

F C O PASS SAVING ALL EXCEPT UKMIS NEW YORK.

HENDERSON.

[REPEATED AS REQUESTED]

F.C.O/WHITEHALL
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FM WASHINGTON 100035Z JAN 81
TO PRIORITY F C O
TELEGRAM NUMBER 85 OF 9 JANUARY
INFO BELGRADE BONN PARIS MOSCOW

MY TELNO 40: APPOINTMENTS AT THE STATE DEPARTMENT

1. TODAY'S WASHINGTON POST REPORTS THAT, WHILE THE APPOINTMENT OF WILLIAM CLARK AS DEPUTY SECRETARY OF STATE IS NOT YET FIRM, JOBS AT THE NEXT LEVEL ARE TO BE FILLED AS FOLLOWS:

UNDER SECRETARY FOR POLITICAL AFFAIRS (REPLACING DAVID NEWSOM):
WALTER J STOESSEL JR (CURRENTLY US AMBASSADOR TO THE FRG)
ASSISTANT SECRETARY FOR EUROPEAN AFFAIRS (REPLACING GEORGE VEST):
LAWRENCE EAGLEBURGER (CURRENTLY US AMBASSADOR TO YUGOSLAVIA)
UNDER SECRETARY FOR ECONOMIC AFFAIRS (REPLACING DICK COOPER)
MYER RASHISH (AN ECONOMIST AND MEMBER OF THE REAGAN TRANSITION OFFICE)

2. OUR STATE DEPARTMENT CONTACTS CONFIRM THESE APPOINTMENTS WHICH HAVE YET TO BE ANNOUNCED FORMALLY. BIOGRAPHICAL DETAILS ARE AS FOLLOWS:

(A) WALTER J STOESSEL JR

BORN 1920. EDUCATED AT COLUMBIA AND HARVARD. A CAREER FOREIGN SERVICE OFFICER SINCE 1942. HAS SERVED THREE TIMES IN MOSCOW, INCLUDING AS AMBASSADOR FROM 1974-76. STOESSEL WAS AMBASSADOR TO POLAND FROM 1968-72 AND ASSISTANT SECRETARY FOR EUROPEAN AFFAIRS AT THE STATE DEPARTMENT FROM 1972-74. MARRIED WITH THREE CHILDREN. WHEN SENATOR BIDEN CALLED ON CHANCELLOR SCHMIDT LAST YEAR (MY TELNO 2262) SCHMIDT TOLD HIM THAT STOESSEL, WHOM HE TRUSTED, WOULD BE HIS PREFERRED CHANNEL OF COMMUNICATION WITH THE US GOVERNMENT BUT THAT STOESSEL'S REPORTS WERE NOT HEEDED BY THE WHITE HOUSE. STOESSEL IS A CORRENT, NEAT, FRIENDLY AND UNFORCEFUL MAN, NOT IN MY VIEW A GREAT ANALYST OR ACTIVIST, BUT WISE AND CALM. HE WILL NO MORE SET THE POTOMAC ON FIRE THAN NEWSOM HAS DONE. HE WILL BE VERY FRIENDLY TOWARDS US, BUT CAUTIOUS IN DEMONSTRATING IT. INSOFAR AS THERE IS A STATE DEPARTMENT TYPE, THAT IS TO SAY SOMEONE WHOM CONGRESSMEN AND BUSINESSMEN TEND TO THINK BUTTONED-UP AND TOO AWARE OF THE SENSITIVITIES OF FOREIGNERS, STOESSEL IS THE PARADIGM.

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1 (B)

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(B) LAWRENCE EAGLEBURGER

BORN 1930, EAGLEBURGER JOINED THE STATE DEPARTMENT IN 1957 AND SERVED AS ECONOMIC ADVISER IN BELGRADE FROM 1962-65. HE SPEAKS SERBO-CROAT. HE SERVED ON THE STAFF OF THE NATIONAL SECURITY COUNCIL FROM 1966-67 AND AGAIN, FROM JANUARY TO JULY 1969 WHEN HE WAS EXECUTIVE ASSISTANT TO HENRY KISSINGER. HE SERVED AT THE US MISSION TO NATO FROM 1969-71 AND AS DEPUTY ASSISTANT SECRETARY FOR INTERNATIONAL SECURITY AFFAIRS AT THE DEFENSE DEPARTMENT FROM 1971-73. EAGLEBURGER WAS EXECUTIVE ASSISTANT TO KISSINGER, AS SECRETARY OF STATE, FROM 1973-75 WHEN HE WAS PROMOTED DEPUTY UNDER SECRETARY OF STATE FOR MANAGEMENT. HE WAS APPOINTED AMBASSADOR TO BELGRADE IN 1977. EAGLEBURGER WAS KISSINGER'S CLOSEST PERSONAL ADVISER AND, EVEN WHEN HE WAS PROMOTED UNDERSECRETARY, KISSINGER CONTINUED TO ENTRUST HIM WITH DELICATE TASKS GOING WELL BEYOND HIS FORMAL RESPONSIBILITIES. EAGLEBURGER WILL BE KNOWN TO HAIG FROM HIS TIME AT THE NATIONAL SECURITY COUNCIL. EAGLEBURGER IS MARRIED WITH FOUR CHILDREN (ONE OF THEM BY A PREVIOUS MARRIAGE)

(C) MYER RASHISH

BORN 1924. EDUCATED AT HARVARD. STAFF DIRECTOR OF THE HOUSE FOREIGN TRADE COMMITTEE FROM 1956-60. WAS ON THE STAFF AT THE KENNEDY WHITE HOUSE FROM 1961-63, WHEN HE SET UP HIS OWN ECONOMIC CONSULTANCY. HE HAS SUBSEQUENTLY OPERATED AS A LOBBYIST AND CONSULTANT ON TRADE MATTERS. HE WAS FOR MANY YEARS A DEMOCRAT AND HAS ONLY RECENTLY ACQUIRED REPUBLICAN CREDENTIALS.

HENDERSON

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FM WASHINGTON 092100Z JAN 81
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TELEGRAM NO 73 OF 9 JANUARY
INFO PRIORITY NIO LONDON, NIO BELFAST
ROUTINE BIS NEW YORK
INFO SAVING ATLANTA

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VISIT TO THE US OF THE REVEREND IAN PAISLEY

1. FOLLOWING IS TEXT OF REPORT IN THE WASHINGTON STAR OF 8 JANUARY, REFERRED TO IN TODAY'S IRISH NEWSPAPER DIGEST:

BEGINS:

THE REV. IAN PAISLEY, THE FIERY LEADER OF NORTHERN IRELAND'S PROTESTANT MILITANTS, IS PLANNING TO ATTEND RONALD REAGAN'S INAUGURATION DESPITE THE FACT THAT HE RECEIVED ONLY A COMMEMORATIVE INVITATION - WHICH THE PRESIDENTIAL INAUGURAL COMMITTEE SAID WAS A MISTAKE.

SOUTH CAROLINA STATE REP. RICHARD RIGDON OF GREENVILLE SAID HE WILL BRING HIS FRIEND PAISLEY TO THE CEREMONY, USING OFFICIAL INAUGURAL TICKETS HE RECEIVED FOR HIS SERVICE AS THE LOCAL REAGAN CAMPAIGN COMMITTEE CHAIRMAN.

QUOTE I SPOKE TO HIM (PAISLEY) YESTERDAY, AND HE'S COMING UNQUOTE RIGDON SAID. QUOTE HE WANTS TO SEE THIS HISTORIC EVENT, AND I WANT TO INTRODUCE HIM TO SOME OF THE SENATORS AND CONGRESSMEN I KNOW UNQUOTE.

IF PAISLEY DOES ATTEND, HE WILL PROBABLY BE THE ONLY FOREIGN OFFICIAL OUTSIDE THE LOCAL DIPLOMATIC CORPS TO BE HERE FOR THE INAUGURATION, ACCORDING TO INAUGURAL COMMITTEE SPOKESWOMAN LAURA GENERO. THE STATE DEPARTMENT ACTIVELY DISCOURAGES FOREIGN LEADERS FROM ATTENDING THE CEREMONY, AND TRADITIONALLY THOSE LEADERS HAVE RESPONDED BY STAYING HOME.

IN AN EFFORT TO DISTANCE ITSELF FROM THE CONTROVERSY, THE INAUGURAL COMMITTEE PUT OUT A STATEMENT YESTERDAY SAYING THAT PAISLEY HAD NOT BEEN OFFICIALLY INVITED TO ATTEND ANY INAUGURAL EVENTS.

QUOTE IT WAS ACCIDENTAL AND UNINTENDED THAT HE RECEIVE ANYTHING, UNQUOTE A COMMITTEE SPOKESMAN SAID. QUOTE BUT IT'S MERELY A COMMEMORATIVE INVITATION HE WAS SENT, AND IT DOES NOT ENTITLE HIM TO ATTEND ANY INAUGURAL EVENTS UNQUOTE.
ENDS.

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/2. BOTH

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2. BOTH THE STATE DEPARTMENT AND THE INAUGURATION COMMITTEE CONFIRM THAT NO OFFICIAL INVITATIONS TO THE INAUGURATION HAVE GONE TO OVERSEAS REPRESENTATIVES. QUOTE COMMEMORATIVE INVITATIONS UNQUOTE (WHICH ARE SIMPLY A SOUVENIR) HAVE GONE TO 500,000 PEOPLE OF WHOM MR PAISLEY IS APPARENTLY ONE. WHILE MR PAISLEY HAS NOT BEEN DIRECTLY INVITED TO ANY OF THE INAUGURAL CELEBRATIONS, IT IS POSSIBLE THAT STATE ASSEMBLYMAN RIGDON OF SOUTH CAROLINA (WHO AS A DELEGATE TO THE REPUBLICAN NATIONAL CONVENTION HAS BEEN INVITED) HAS DECIDED TO INCLUDE MR PAISLEY ON HIS TICKET WHICH ENTITLES HIM TO BE ACCOMPANIED BY ONE OTHER PERSON. WE BELIEVE THAT THE REVEREND MARTIN SMYTH AND JOHN HUME (THE LATTER APPARENTLY INVITED BY SPEAKER O'NEILL) MAY ALSO BE SPECTATORS AT THE INAUGURAL CEREMONIES ON A SIMILAR BASIS.

3. THE GUARDIAN CORRESPONDENT HERE IS FOLLOWING UP THE WASHINGTON STAR STORY AT THE REQUEST OF HIS PAPER. IT WOULD BE INAPPROPRIATE TO OFFER ANY OFFICIAL COMMENT BUT THE POINT COULD BE MADE, BY WAY OF UNATTRIBUTABLE BACKGROUND, THAT NO OFFICIAL INVITATIONS TO THE INAUGURATION HAVE GONE TO OVERSEAS REPRESENTATIVES AND THAT ATTENDANCE BY MR PAISLEY OR ANY OTHER PUBLIC FIGURE FROM THE UK COULD ONLY BE AS THE INDIVIDUAL GUEST OF AN AMERICAN INVITEE.

HENDERSON

NORTHERN IRELAND LIMITED
RID PS/MR HURD
NAD PS/MR RIDLEY
INFORMATION D PS/MR BLAKER
WED PS/PUS
MAED SIR A ACLAND
NEWS D CHIEF CLERK
SECURITY D MR ADAMS
PUSD MR BULLARD
PS MR FERGUSSON
PS/LPS LORD N G LENNOX
MR BRAITHWAITE

ADDITIONAL DISTN.
NORTHERN IRELAND

2
RESTRICTED

DEPARTMENT/SERIES <i>PREM 19</i> PIECE/ITEM <i>1405</i> (one piece/item number)	Date and sign
Extract/Item details: <i>US Annual Review 1980 by Nicholas Henderson</i>	
CLOSED FOR YEARS UNDER FOI EXEMPTION	
RETAINED UNDER SECTION 3(4) OF THE PUBLIC RECORDS ACT 1958	
TEMPORARILY RETAINED	<i>7 October 2013 @Wayland</i>
MISSING AT TRANSFER	
MISSING	
NUMBER NOT USED	



10 DOWNING STREET

From the Private Secretary

7 January, 1981

Messages to Presidents Carter and Reagan

The Prime Minister has seen and approved the draft messages to Presidents Carter and Reagan set out in Washington telno 5042 of 31 December. I enclosed signed texts.

I should be grateful if you could arrange for delivery of the messages at appropriate times on Inauguration Day. In order to avoid the anomaly of handing over the signed texts on the same day as they purport to have been signed in London, I imagine the Embassy will wish to hand over the unsigned texts and follow up a day or two later with the more formal versions.

M. O'D. B. ALEXANDER

F Richards, Esq
Foreign and Commonwealth Office

1/60

USA

BF 20.1.81
Fav T's



10 DOWNING STREET

20 January, 1981

THE PRIME MINISTER

Dear Mr President,

May I send you my congratulations, and those of my colleagues in the British Government, on your inauguration as President of the United States. You face a formidable task of leadership at a dangerous time. But your inauguration is a symbol of hope for the Alliance, and you can depend on our confidence and support as we work together to meet the challenges of the 1980s.

I look forward to renewing our friendship when we meet in Washington next month, and to consolidating the close relationship between our two countries.

With best wishes.

Warm personal regards,

Yours sincerely

Roger and Thelma

The President of the United States of America



10 DOWNING STREET

THE PRIME MINISTER

20 January, 1981

Dear Mr. President,

I should like to send you my warm thanks for the close friendship and co-operation we have enjoyed during your term of office. I have admired your courage in tackling the formidable problems which have confronted the United States and the Free World.

On a personal note, I should like to say how much I appreciated your hospitality in Washington in 1979. My colleagues join me in sending you our very best wishes for the future.

Yours sincerely
Margaret Thatcher

The President of the United States of America



(3)

10 DOWNING STREET

Prime Minister.

You have approved the texts
of these two messages in draft.
One will be delivered before
the inauguration ceremony on
20 January and one immediately
after it.

Both should begin
"Dear Mr President".

Prime Minister

Please sign the top message

Ant
Duty Clerk
6.1.61.

GR - Pse type 2 messages
for signature

Manager for Mr.
in PM box 5.1.81

Prime Minister

Agree to send messages
to Carter + Reagan, as
at A + B, for delivery
on inauguration day?

ms
NAD 21, Yes

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FM WASHINGTON 312359Z DEC 80
TO ROUTINE F C O
TELEGRAM NUMBER 5042 OF 31 DECEMBER

MESSAGES TO PRESIDENT CARTER AND PRESIDENT REAGAN

1. THE PRIME MINISTER MAY WISH TO SEND A PERSONAL MESSAGE TO PRESIDENT CARTER AS HE LEAVES OFFICE ON 20 JANUARY. I ALSO RECOMMEND THAT SHE SEND A FORMAL MESSAGE OF CONGRATULATION TO PRESIDENT REAGAN ON HIS INAUGURATION. I SUGGEST THE FOLLOWING AS POSSIBLE TEXTS. IF APPROVED, WE WOULD ARRANGE FOR THEIR DELIVERY ON THE MORNING OF 20 JANUARY.

(A) PROPOSED MESSAGE TO PRESIDENT CARTER
QUOTE I SHOULD LIKE TO SEND YOU MY WARM THANKS FOR THE CLOSE FRIENDSHIP AND COOPERATION WE HAVE ENJOYED DURING YOUR TERM OF OFFICE. I HAVE ADMIRERD YOUR COURAGE IN TACKLING THE FORMIDABLE PROBLEMS WHICH HAVE CONFRONTED THE UNITED STATES AND THE FREE WORLD. ON A PERSONAL NOTE I SHOULD LIKE TO SAY HOW MUCH I APPRECIATED YOUR HOSPITALITY IN WASHINGTON IN 1979. MY COLLEAGUES JOIN ME IN SENDING YOU OUR VERY BEST WISHES FOR THE FUTURE UNQUOTE.

(B) MESSAGE TO PRESIDENT REAGAN
QUOTE MAY I SEND YOU MY CONGRATULATIONS, AND THOSE OF MY COLLEAGUES IN THE BRITISH GOVERNMENT, ON YOUR INAUGURATION AS PRESIDENT OF THE UNITED STATES. YOU FACE A FORMIDABLE TASK OF LEADERSHIP AT A DANGEROUS TIME. BUT YOUR INAUGURATION IS A SYMBOL OF HOPE FOR THE ALLIANCE AND YOU CAN DEPEND ON OUR CONFIDENCE AND SUPPORT AS WE WORK TOGETHER TO MEET THE CHALLENGES OF THE 80S. I LOOK FORWARD TO RENEWING OUR FRIENDSHIP WHEN WE MEET IN WASHINGTON NEXT MONTH AND TO CONSOLIDATING THE CLOSE RELATIONSHIP BETWEEN OUR TWO COUNTRIES. WITH BEST WISHES UNQUOTE.

HENDERSON

LIMITED PS/MR RIDLEY
NAD PS/PUS
PS MR DAY
PS/LPS MR HARDING

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No. 10 DOWNING STREET

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FM WASHINGTON 300005Z DEC 80

TO PRIORITY F C O

TELEGRAM NUMBER 5015 OF 30 DECEMBER

INFO SAVING MOSCOW, PEKING, UKMIS NEW YORK, OTTAWA, PARIS, BONN,
UKREP BRUSSELS, DUBLIN, NATO POSTS, CGS USA.

THE REAGAN CABINET

1. PRESIDENT-ELECT REAGAN'S CABINET IS NOW ALMOST COMPLETE. ITS GESTATION HAS TAKEN LONGER AND BEEN MORE PAINFUL THAN EXPECTED, PARTLY BECAUSE OF INFIGHTING AMONG INDIVIDUALS AND INTEREST GROUPS SEEKING TO INFLUENCE REAGAN'S CHOICE, AND PARTLY BECAUSE OF PERSONAL AND CONFLICT OF INTEREST PROBLEMS AFFECTING SOME OF THE INDIVIDUALS CONCERNED.
2. THE CABINET ITSELF CONSISTS OF PEOPLE WHO ARE LARGELY UNKNOWN TO THE PUBLIC AND MOSTLY WITHOUT EXPERIENCE IN GOVERNMENT, ALTHOUGH SUCCESSFUL IN THEIR OWN FIELDS. ONLY WEINBERGER (DEFENCE) AND HAIG (SECRETARY OF STATE) HAVE PREVIOUSLY SERVED AT THE TOP LEVELS OF GOVERNMENT, ALTHOUGH SOME OTHERS HAVE OCCUPIED LESS SENIOR POSTS IN PREVIOUS ADMINISTRATIONS. REAGAN HAS INCLUDED THREE OF HIS CLOSE ASSOCIATES FROM CALIFORNIA: WEINBERGER, SMITH (ATTORNEY-GENERAL) AND MEESE (COUNSELLOR TO THE PRESIDENT). THE REPUBLICAN POLITICAL AND BUSINESS ESTABLISHMENT IS STRONGLY REPRESENTED AND 8 OF THE 15 MEMBERS NAMED SO FAR WERE EDUCATED AT IVY LEAGUE COLLEGES, WITH 6 FROM HARVERD. THERE ARE ALSO, UNUSUALLY, 2 FROM WEST POINT: HAIG AND BLOCK (AGRICULTURE).
3. SOME CHOICES WERE CLEARLY DICTATED BY NARROW CONSIDERATIONS. HENCE THE INCLUSION OF A BLACK (PIERCE AT HOUSING AND URBAN DEVELOPMENT). EDWARDS (ENERGY) SEEMS TO HAVE BEEN SELECTED IN ORDER TO MEET CRITICISM THAT THE EARLY APPOINTMENTS INCLUDED NO-ONE FROM THE SOUTH. AND WATT (INTERIOR) MAY HAVE BEEN CHOSEN IN PART TO PACIFY COMPLAINTS FROM MANY OF REAGAN'S LONG-STANDING SUPPORTERS ON THE RIGHT WING OF THE PARTY THAT THE OVERALL COMPLEXION OF HIS CABINET WAS TOO CENTRIST.
4. AMONG THE SENIOR MEMBERS OF THE CABINET, THE NOMINATIONS OF REGAN (TREASURY) AND WEINBERGER HAVE PARTICULARLY UPSET THE QUOTE NEW RIGHT UNQUOTE. REGAN IS REGARDED AS IDEOLOGICALLY AGNOSTIC AND HIS EARLY REMARKS ABOUT THE NEED FOR A BALANCED PACKAGE OF TAX AND EXPENDITURE CUTS HAS UPSET THOSE WHO ADVOCATE TAX CUTS AS THE FIRST PRIORITY OF THE NEW ADMINISTRATION'S ECONOMIC POLICY. WEINBERGER IS VIEWED WITH SUSPICION BY THOSE WHO LOOK TO THE NEW ADMINISTRATION FOR MASSIVE INCREASES IN DEFENCE EXPENDITURE AND WHO RECALL HIS LACK OF PREVIOUS EXPERIENCE IN DEFENCE AS WELL AS HIS REPUTATION AS A BUDGET CUTTER. HIS MEMBERSHIP OF THE TRILATERAL COMMISSION, WHICH IS ANATHEMA TO THE RIGHT WING OF THE PARTY, ALSO MAKES HIM SUSPECT. A REARGUARD ACTION IS BEING FOUGHT BY THE REPUBLICAN RIGHT WING TO FILL THE MAJOR SUB-CABINET POSTS WITH MEN OF THEIR IDEOLOGICAL PERSUASION.

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5. ALEXANDER HAIG AND JAMES WATT ARE REAGAN'S TWO MOST CONTROVERSIAL APPOINTMENTS AND THE ONES BEST CALCULATED TO PLEASE THE RIGHT WING. BACKGROUND ON WATT IS IN MY TELNO 4990. ONCE GEORGE SHULTZ (REAGAN'S FIRST CHOICE FOR SECRETARY OF STATE) HAD REMOVED HIMSELF FROM CONSIDERATION, REAGAN HESITATED OVER HAIG, NOT BECAUSE HE HAD DOUBTS ABOUT HIS SUITABILITY FOR THE JOB, BUT BECAUSE OF FEARS, INITIALLY CORROBORATED BY WORD FROM REPUBLICAN SENATE LEADER HOWARD BAKER, THAT HAIG MIGHT NOT BE CONFIRMED BY THE SENATE. THE RESULTING DELAY AND DOUBTS OVER HAIG'S APPOINTMENT GAVE DEMOCRATS AND THE EAST COAST PRESS A TASTE OF BLOOD. THE WASHINGTON POST, IN PARTICULAR, HAS BEEN IN FULL CRY WITH A SERIES OF ARTICLES ABOUT HAIG'S ALLEGED MISDEMEANOURS WHEN HE SERVED IN THE NIXON WHITE HOUSE. THE ALLEGATIONS ARE NOT TRIVIAL AND HIS CONFIRMATION HEARINGS (DUE TO START ON 9 JANUARY AND EXPECTED TO LAST FOR ABOUT A WEEK) MAY BE TENSE. HOWEVER, IN THE ABSENCE OF NEW AND DAMAGING REVELATIONS HIS CONFIRMATION SEEMS ASSURED, THOUGH THERE IS ALSO SOME CONCERN AMONG SENATORS AND THE PRESS ABOUT HAIG'S OVERALL QUALIFICATIONS FOR THE JOB EG HIS RANGE OF EXPERIENCE AND KNOWLEDGE OF MATTERS OUTSIDE THE STRATEGIC SPHERE.

6. THOUGH LARGELY UNKNOWN, NONE OF REAGAN'S CABINET NOMINEES HAS COME AS A COMPLETE SURPRISE, IF ONLY BECAUSE OF CAREFUL LEAKING OF NAMES TO THE PRESS. ADVANCE PRESS SCRUTINY, THE REQUIREMENTS OF THE ETHICS IN GOVERNMENT ACT AND SOME SKILFUL BACKSTABBING HAVE RULED OUT SOME POTENTIALLY GOOD CHOICES (SHULTZ AND SIMON) AND ONE OR TWO EMBARRASSING ONES EG PHILIP SANCHEZ WHO SERVED IN NIXON'S ADMINISTRATION AND WOULD HAVE BEEN APPOINTED BY REAGAN TO HOUSING HAD NOT INVESTIGATIONS BROUGHT TO LIGHT HIS SCANDALOUS PRIVATE LIFE. ENQUIRIES SEEM TO HAVE BEEN LESS RIGOROUS IN THE CASE OF JACKIE PRESSER, A LEADER OF THE TEAMSTERS UNION, WHO WAS APPOINTED AS SENIOR ECONOMIC ADVISER TO THE REAGAN TRANSITION. PRESSER IS CHARGED WITH MISMANAGEMENT OF UNION FUNDS AND IS BELIEVED TO HAVE LINKS WITH THE MAFIA.

7. AT TIMES, THE REAGAN TRANSITION HAS APPEARED TO LACK DIRECTION. APART FROM HIS TWO VISITS TO WASHINGTON AND HIS TRIP TO NEW YORK, REAGAN HAS STAYED QUIETLY IN CALIFORNIA. HE HAS MADE FEW PUBLIC APPEARANCES AND HAS NOT PERSONALLY PRESENTED ANY OF HIS NEW CABINET TO THE PRESS AND PUBLIC. REAGAN HAS HAD NO SUBSTANTIVE DISCUSSION WITH THE NEW MEMBERS OF HIS CABINET, EITHER ABOUT THEIR OWN JOBS OR ABOUT ADMINISTRATION POLICY. COMMENTATORS ARE BEGINNING TO ASK TO WHAT EXTENT REAGAN IS IN CHARGE AND TO WHAT EXTENT OTHERS ARE PREPARING TO GOVERN IN HIS NAME. ED MEESE, WHO AS COUNSELLOR TO THE PRESIDENT IS THE PRINCIPAL SPOKESMAN AND DECISION-MAKER FOR REAGAN, HAS MORE THAN ONCE HAD TO ASSURE THE PRESS THAT REAGAN IS BEING CONSULTED.

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8. THE TRANSITION TEAMS HAVE ALSO GOT BOGGED DOWN IN BUREAUCRACY. REAGAN'S TEAM IS THREE TIMES THE SIZE OF CARTER'S FOUR YEARS AGO AND HAS ALREADY OVERSPENT THE DOLLARS 2 MILLION ALLOCATED BY CONGRESS. THE TEAM OCCUPIES 9 FLOOGS OF A WASHINGTON BUILDING AND HAS BECOME SO SWAMPED WITH ITS OWN PAPER THAT AN ADVISORY TEAM HAS BEEN APPOINTED TO ASSESS THE REPORTS OF THE OTHER ADVISORY TEAMS. THE POSITION IS SUMMED UP BY A RECENT CARTOON WHICH HAS REAGAN WALKING, UNKNOWINGLY, INTO HIS OWN TRANSITION OFFICE AND COMMENTING THAT IT REPRESENTS QUOTE PRECISEPY THE KIND OF BLOAT AND INEFFICIENCY WE WANT TO GET RID OF UNQUOTE.

FCO PSE PASS SAVING TO: MOSCOW PEKING OTTAWA PARIS BONN UKREP
BRUSSELS DUBLIN ANKARA ATHENS COPENHAGEN LISBON LUXEMBOURG OSLO
ROME REYKJAVIK THE HAGUE UKDEL NATO AND BRUSSELS

HENDERSON

[REPEATED AS REQUESTED]

[THIS TELEGRAM WAS NOT ADVANCED]

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Prime Minister

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FM WASHINGTON 241755Z DEC 80
TO ROUTINE F C O
TELEGRAM NUMBER 5005 OF 24 DECEMBER
INFO MODUK.

and

PRESIDENTIAL TRANSITION: GENERAL HAIG.

1. TODAY'S WASHINGTON POST REPORTS THAT HAIG HAS MOVED QUICKLY TO MAKE HIS MARK ON THE STATE DEPARTMENT BY DISMISSING THE TRANSITION TEAM LED BY AMBASSADOR ROBERT NEUMANN. NEUMANN HIMSELF HAS BEEN KEPT ON.
2. THE STATE DEPARTMENT TRANSITION TEAM PRESENTED ITS REPORT TO HAIG ON MONDAY AND HAD, IN THEORY, COMPLETED ITS TASK, BUT MANY OF ITS MEMBERS UNDOUBTEDLY HOPED TO BE KEPT ON, FIRSTLY TO HELP RESHAPE THE DEPARTMENT AND LATER TO FILL SENIOR POSITIONS. SOME OF THE TRANSITION TEAM MEMBERS MAY YET BE CONSIDERED FOR JOBS BUT THEIR DISMISSAL HAS COME AS A SURPRISE - UNWELCOME TO THEM IF TO NO-ONE ELSE.
3. THE STATE DEPARTMENT TEAM HAS NOT BEEN ONE OF THE SUCCESSES OF THE TRANSITION. IT INCLUDED ONE OR TWO FIGURES WHO WERE MORE INTERESTED IN FINDING A PLATFORM FOR THEIR OWN VIEWS THAN IN PREPARING THE GROUND FOR THE NEW ADMINISTRATION. THE TEAM WAS RESPONSIBLE FOR A NUMBER OF LEAKS, INCLUDING THE TELEGRAMS DESCRIBING SENATOR PERCY'S CONVERSATIONS IN MOSCOW. IT WAS ALSO THE SOURCE OF PERSISTENT REPORTS THAT THERE WAS TO BE A MAJOR PURGE OF THE STATE DEPARTMENT AND OF US AMBASSADORS AROUND THE WORLD, AND A FEELING HAD GROWN THAT THE TRANSITION TEAM HAD CREATED MORE PROBLEMS THAN IT HAD SOLVED. IT HAD CERTAINLY GENERATED CONSIDERABLE ILL-WILL AT THE STATE DEPARTMENT.
4. THE WASHINGTON POST REPORTS THAT HAIG HAS BROUGHT WITH HIM TO THE STATE DEPARTMENT, AS PERSONAL ASSISTANT, A PHILADELPHIA LAWYER, SHERWOOD D GOLDBERG. HE IS ALSO REPORTED TO HAVE TAKEN ON ROBERT MCFARLANE (A RETIRED COLONEL WHO WAS ON THE STATE DEPARTMENT TRANSITION TEAM AND WHO PREVIOUSLY WORKED ON THE STAFF OF THE SENATE ARMED SERVICES COMMITTEE).

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5. THE SAME ARTICLE REPORTS THE ADDITION TO HAIG'S STAFF OF TWO OTHER ADVISERS WITH EXPERIENCE IN THE POLITICO-MILITARY FIELD, BOTH OF THEM KNOWN TO THIS EMBASSY. PAUL WOLFOWITZ, WHO HAS BEEN ON THE FRINGES OF THE TRANSITION TEAM, WAS UNTIL RECENTLY DEPUTY ASSISTANT SECRETARY FOR REGIONAL PROGRAMMES IN THE PENTAGON'S PROGRAMME ANALYSIS AND EVALUATION OFFICE WHERE HE WORKED ON THE GULF/INDIAN OCEAN REGION IN PARTICULAR. HE IS CURRENTLY HEAD OF THE SECURITY STUDIES PROGRAMME AT THE SCHOOL OF ADVANCED INTERNATIONAL STUDIES OF JOHNS HOPKINS UNIVERSITY. RICHARD BURT HAS MADE A NAME FOR HIMSELF AS LESLIE GELB'S SUCCESSOR AS NATIONAL SECURITY AFFAIRS CORRESPONDENT OF THE NEW YORK TIMES. HE IS A FORMER DEPUTY DIRECTOR OF THE INTERNATIONAL INSTITUTE OF STRATEGIC STUDIES IN LONDON.

HENDERSON

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[NOT ADVANCED]

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Prime Minister

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FM WASHINGTON 240043Z DEC 80

TO IMMEDIATE F C O

TELEGRAM NUMBER 4999 OF 23 DECEMBER

INFO NATO POSTS, DUBLIN, UKREP BRUSSELS, UKMIS NEW YORK AND

HMCG NEW YORK, MOSCOW, PEKING

INFO SAVING CG'S IN USA

US PRESIDENTIAL APPOINTMENTS

1. PRESIDENT-ELECT REAGAN TODAY NAMED RICHARD ALLEN AS HIS ASSISTANT FOR NATIONAL SECURITY AFFAIRS AND MARTIN ANDERSON AS HIS ASSISTANT FOR DOMESTIC AFFAIRS. THEY WILL TAKE THE JOBS CURRENTLY HELD BY BRZEZINSKI AND EIZENSTAT RESPECTIVELY. UNLIKE BRZEZINSKI, ALLEN WILL NOT HAVE CABINET RANK. BOTH MEN WILL WORK TO EDWIN MEESE, (COUNSELLOR TO THE PRESIDENT WITH CABINET RANK-MY TEL NO 4586).

2. FOR BACKGROUND ON ALLEN PLEASE SEE MY TELS NOS 2117, AND 4437. HIS APPOINTMENT AS NATIONAL SECURITY ADVISER HAS BEEN A FOREGONE CONCLUSION FOR SOME TIME. THE APPOINTMENT DOES NOT REQUIRE SENATE CONFIRMATION, SO ALLEN NEED NOT FACE AWKWARD QUESTIONS ABOUT HIS PAST ACTIVITIES. ALLEN HAS BEEN REAGAN'S PRINCIPAL SPOKESMAN ON FOREIGN POLICY DURING THE TRANSITION. ALTHOUGH HE MAINTAINS THAT HE HIMSELF RECOMMENDED THAT THE FUNCTION OF THE NATIONAL SECURITY ADVISER SHOULD REVERT TO THAT OF COORDINATOR AND STAFF OFFICER RATHER THAN POLICY MAKER, THERE IS SOME SCEPTICISM HERE ABOUT HOW LONG HE WILL BE CONTENT WITH THIS SELF-EFFACING ROLE. WHATEVER HIS PUBLIC PROFILE, FROM NOW ON, ALLEN WILL REMAIN CLOSE TO REAGAN, AND IN A POSITION TO EXERT CONSIDERABLE INFLUENCE. THE EXTENT TO WHICH THAT INFLUENCE MAKES ITSELF FELT MORE WIDELY WILL DEPEND ON HOW FAR REAGAN HIMSELF TRIES TO RUN FOREIGN POLICY AND HOW FAR HAIG CAN SUCCEED, WHERE OTHERS HAVE FAILED, IN MAKING THE SECRETARY OF STATE THE PRINCIPAL SOURCE OF ADVICE AND THE SOLE SPOKESMAN ON FOREIGN POLICY.

3. MARTIN ANDERSON (AGE 44) WAS DIRECTOR OF RESEARCH DURING THE NIXON PRESIDENTIAL CAMPAIGN IN 1968 AND SUBSEQUENTLY WORKED AT THE NIXON WHITE HOUSE. HE IS A FORMER PROFESSOR OF ECONOMICS AT COLUMBIA UNIVERSITY AND WAS MORE RECENTLY AT STANFORD UNIVERSITY'S HOOVER INSTITUTION ON WAR, REVOLUTION AND PEACE. HE IS AUTHOR OF A BOOK CALLED QUOTE THE FEDERAL BULLDOZER: A CRITICAL ANALYSIS OF URBAN RENEWAL UNQUOTE. ANDERSON ADVISED REAGAN DURING THE 1976 CAMPAIGN AND HAS BEEN ONE OF HIS CLOSEST ADVISERS OVER THE LAST YEAR. ALTHOUGH NOW PRIMARILY CONCERNED WITH DOMESTIC ISSUES, ANDERSON'S MAIN CLAIM TO FAME IS AS THE MAN WHO FIRST SOLD TO PRESIDENT NIXON THE CONCEPT OF THE ALL VOLUNTEER ARMY, AN IDEA WHICH WAS OPPOSED THEN, AS NOW, BY HAIG.

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4 OTHER APPOINTMENTS TO REAGAN'S WHITE HOUSE INCLUDE:

POLITICAL LIAISON: LYN NOFZIGER

NOFZIGER WAS REAGAN'S PRINCIPAL SPOKESMAN AS GOVERNOR OF CALIFORNIA, WAS BROUGHT BACK INTO THE SAME JOB DURING THE PRESIDENTIAL CAMPAIGN, AND SUBSEQUENTLY RESIGNED TO GO BACK INTO BUSINESS. HE IS A GENIAL ROUGH DIAMOND, WELL LIKED BY THE PRESS, AND PRESUMABLY ONLY AGREED TO SERVE IN THE WHITE HOUSE AT REAGAN'S BEHEST. HE AND MEESE DO NOT ALWAYS SEE EYE TO EYE.

DEPUTY CHIEF OF STAFF: RICHARD DEEVER

DEEVER WAS PARTNER IN THE FIRM OF DEAVOR AND HANNAFORD, REAGAN'S PR ADVISERS. DEEVER WORKED FOR REAGAN WHEN HE WAS GOVERNOR OF CALIFORNIA, IS ONE OF HIS CLOSEST FRIENDS AND WILL NOW RUN HIS PRIVATE OFFICE AND SCHEDULE. HE IS REPUTED TO BE SOMETHING OF AN INTELLECTUAL, WITH A CAPACITY FOR STANDING BACK FROM PROBLEMS AND COMING UP WITH ORIGINAL SOLUTIONS.

PUBLIC LIAISON: ELIZABETH DOLE

WIFE OF KANSAS SENATOR BOB DOLE. SHE PLAYED A LEADING PART IN THE TRANSITION AND WILL NOW HAVE RESPONSIBILITY FOR WHITE HOUSE LIAISON WITH KEY INTEREST GROUPS, INCLUDING WOMEN AND MINORITIES.

CONGRESSIONAL LIAISON: MAX FRIEDERSDORF

CURRENT CHAIRMAN OF THE FEDERAL ELECTION COMMISSION, FRIEDERSDORF SERVED BOTH NIXON AND FORD AS CONGRESSIONAL LIAISON. THE APPOINTMENT OF SOMEONE EXPERIENCED IN THE FIELD IS EVIDENCE OF REAGAN'S DETERMINATION TO AVOID CARTER'S POOR START WITH CONGRESS.

HENDERSON

FCO/WHITEHALL
NAD

(REPETITION TO REYKJAVIK REFERRED
FOR DEPTL DECISION REPEATED AS
REQUESTED TO OTHER POSTS)

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Prime Minister

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FM WASHINGTON 240035Z DEC

TO IMMEDIATE F C O

TELEGRAM NUMBER 4998 OF 23 DECEMBER 80.

INFO UK MIS NEW YORK AND C G NEW YORK.

INFO SAVING MOSCOW, PEKING, PARIS, BONN, OTTAWA, DUBLIN, UK REP
BRUSSELS, ANKARA, ATHENS, BRUSSELS, COPENHAGEN, LISBON, LUXEMBOURG,
OSLO, ROME, REYKJAVIK, THE HAGUE, UK DEL NATO, ATLANTA, BOSTON,
CHICAGO, CLEVELAND, DETROIT, HOUSTON, LOS ANGELES, SAN FRANCISCO,
AND SEATTLE.

MY TELEGRAM NO 4987 : REAGAN CABINET : SECRETARY OF AGRICULTURE.

1. FOLLOWING IS BIOGRAPHY OF JOHN RUSLING BLOCK, WHOSE NOMINATION
AS SECRETARY OF AGRICULTURE WAS ANNOUNCED THIS AFTERNOON.

2. BORN 1935, SON OF ILLINOIS FARMER.

1957 : GRADUATED FROM WEST POINT MILITARY ACADEMY.

1960 : AFTER MILITARY SERVICE IN INFANTRY, TOOK OVER FAMILY FARM,
EXPANDING THE ENTERPRISE TO 3,000 ACRES.

1977 : APPOINTED BY GOVERNOR THOMPSON AS DIRECTOR OF AGRICULTURE
FOR THE STATE OF ILLINOIS. FORMERLY ACTIVE IN LOCAL AMERICAN FARM
BUREAU; VARIOUS AWARDS FOR DISTINGUISHED CONTRIBUTIONS TO U.S.
AGRICULTURE. FORMER PRESIDENT OF THE MID-AMERICA INTERNATIONAL
AGRI/TRADE COUNCIL AND PARTICIPANT IN SEVERAL AGRICULTURAL EXPORT
MISSIONS TO JAPAN, CHINA, USSR AND EUROPE. MARRIED, SON AND TWO
DAUGHTERS.

3. BLOCK'S NOMINATION HAS BEEN PRESSED STRONGLY BY SENATORS DOLE
AND PERCY WHO WANTED SOMEONE WITH PERSONAL AND PRACTICAL EXPER-
IENCE OF FARMING. BLOCK'S CANDIDATURE HAS BEEN INFORMALLY APPROVED
BY SENATOR HELMS (FUTURE CHAIRMAN OF THE SENATE AGRICULTURE COMM-
ITTEE) DESPITE EARLIER SPECULATION THAT HELMS WOULD HAVE DIFFICULTY
IN SUPPORTING A SECRETARY OF AGRICULTURE FROM THE PROSPEROUS MID-
WEST; HELMS'S POLITICAL BASE RESTS AMONG THOSE FARMING PRINCIPALLY
COTTON, TOBACCO AND PEANUTS WHICH ARE HEAVILY DEPENDENT ON U.S.
SUPPORT PROGRAMMES. WHILE ONE OF SEVERAL FAVOURITES FOR THIS POST,

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BLOCK HAS EVIDENTLY MANAGED TO INCH PAST OTHER STRONGER, AND ARGUABLY MORE EXPERIENCED, CONTENDERS SUCH AS CLAYTON YEUTTER (PRESIDENT CHICAGO MERCANTILE EXCHANGE AND A FORMER ASSISTANT SECRETARY AT USDA AND THEN DEPUTY STR IN THE NIXON/FORD ADMINISTRATION) : AND, ESPECIALLY, RICHARD LYNG, ANOTHER FORMER ASSISTANT SECRETARY AT USDA, REAGAN'S DIRECTOR OF FOOD AND AGRICULTURE IN CALIFORNIA, AND THE LEADER OF THE AGRICULTURAL TRANSITION TEAM WHO WAS SUPPORTED BY FORMER SECRETARY EARL BUTZ.

4. ACCORDING TO SOME SOURCES, DESPITE HIS APPARENT EXPERIENCE IN PROMOTING U.S. AGRICULTURAL EXPORTS, BLOCK HAS VERY LITTLE INTERNATIONAL EXPOSURE. HE WILL BRING TO THE JOB LITTLE OR NO EXPERIENCE OF THE CONGRESS, YET WILL NEED TO COPE WITH IMPORTANT LEGISLATION IN 1981 IN THE DEVELOPMENT OF THE NEW FARM BILL: AND DEAL WITH THE COMPLEXITIES OF THE GRAIN EMBARGO AGAINST THE SOVIET UNION (WHICH HE HAS LONG OPPOSED).

FCO PLEASE ADVANCE TO PS MINISTER, J.H.V. DAVIES PARKHOUSE AND WILKES (MAFF).

FCO PASS SAVING MOSCOW, PEKING, PARIS, BONN, OTTAWA, DUBLIN, UK REP BRUSSELS AND ALL OTHER NATO POSTS.

HENDERSON

FCO/WHITEHALL
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[PASSED AS REQUESTED]

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USA

FM WASHINGTON 230025Z DEC 80
TO IMMEDIATE F C O
TELEGRAM NO 4992 OF 22 DECEMBER
INFO C G NEW YORK
INFO SAVING ATLANTA, HOUSTON, UKDEL OECD

MY TELNO 4956: US ENERGY SECRETARY

1. THE NOMINATION OF JAMES B EDWARDS AS THE NEW REPUBLICAN SECRETARY OF ENERGY WAS OFFICIALLY ANNOUNCED TODAY. WE HAVE THEREFORE FORWARDED TO HIM THE CONGRATULATORY MESSAGE FROM MR HOWELL SET OUT IN MY TUR (TELECON JONES/MUIR TODAY). BRIEF BIOGRAPHICAL DETAILS ARE SET OUT BELOW.

BORN JUNE 1927 IN FLORIDA

1944-7 US NAVY SERVICE

1947-50 CHARLESTON COLLEGE, SOUTH CAROLINA

1950-51 NAVY SERVICE

1952-55 UNIVERSITY OF LOUISVILLE (DENTISTRY)

1955-57 NAVY SERVICE

1957-75 DENTAL SURGERY POSTS

1964-71 ACTIVE IN SOUTH CAROLINA REPUBLICAN POLITICS

1971 RAN UNSUCCESSFULLY FOR HOUSE OF REPRESENTATIVES

1972-4 SOUTH CAROLINA STATE SENATE

1975-8 GOVERNOR OF SOUTH CAROLINA

1978-80 PRIVATE DENTAL PRACTICE.

2. UNTIL THE NEWS OF THE NOMINATION LEAKED LAST WEEK EDWARDS HAD NOT FEATURED IN ANY OF THE PRESS SPECULATION ABOUT THE ENERGY POST. HIS BACKGROUND IS MAINLY NAVY SERVICE, DENTAL SURGERY AND REPUBLICAN POLITICS AT STATE LEVEL. APART FROM A SHORT SPELL AS CHAIRMAN OF THE NUCLEAR SUB-COMMITTEE OF THE NATIONAL GOVERNORS ASSOCIATION HE IS NOT KNOWN TO HAVE MUCH PREVIOUS EXPERIENCE IN THE ENERGY FIELD OR IN INTERNATIONAL ISSUES GENERALLY. HE DID HOWEVER HELP TO FOUND THE SOUTH CAROLINA ENERGY RESEARCH INSTITUTE, A PRIVATELY FINANCED THINK TANK. HIS NOMINATION IS SEEN AS MEETING THE POLITICAL NEED TO INCLUDE A SOUTHERNER IN REAGAN'S CABINET, AND AS A GESTURE TO SENATOR STROM THURMOND OF SOUTH CAROLINA WITH WHOM EDWARDS IS CLOSELY ASSOCIATED.

3 AS GOVERNOR OF SOUTH CAROLINA EDWARDS WAS WELL REGARDED AND IS SAID TO HAVE DONE MUCH TO ENCOURAGE INDUSTRIAL INVESTMENT IN THE STATE, INCLUDING FOREIGN INVESTMENT. HE RAN INTO ACCUSATIONS OF RACIAL PREJUDICE IN 1977 FOLLOWING REMARKS MADE AFTER A TRIP TO SOUTH AFRICA, BUT THIS SEEMS TO HAVE BEEN A RATHER EXAGGERATED INCIDENT. EDWARDS IS DESCRIBED BY OUR CONSUL GENERAL IN ATLANTA AS PLEASANT, APPROACHABLE AND WELL DISPOSED TOWARDS BRITAIN. ON ENERGY THE MAIN VIEW HE IS KNOWN TO HOLD IS STRONG SUPPORT FOR NUCLEAR

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POWER BUT HE IS ALSO LIKELY TO TAKE A CONSERVATIVE, PRO-INDUSTRY LINE ON OTHER ENERGY ISSUES. HE HAS BEEN QUOTED AS LOOKING FORWARD TO DOING HIMSELF OUT OF A JOB BY DISMANTLING THE US DEPARTMENT OF ENERGY, BUT THIS ATTITUDE COULD OF COURSE CHANGE.

4. PLEASE ADVANCE TO PS/SECRETARY OF STATE, D LE B JONES AND MUIR (DEPARTMENT OF ENERGY) AND HEAP (ESSD).

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FM WASHINGTON 230024Z DEC 80
TO PRIORITY FCO
TELEGRAM NO 4991 OF 22 DECEMBER
INFO HMCN NEW YORK
INFO SAVING CONSUL GENERALS IN U.S.A.

MY TELNO 4987: REAGAN CABINET APPOINTMENTS

FOLLOWING IS BIOGRAPHY OF SAMUEL R PIERCE JR (SECRETARY OF
HOUSING AND URBAN DEVELOPMENT)

BORN 1922

1947 GRADUATED FROM CORNELL UNIVERSITY. LATER STUDIED AT YALE.

1949-1953 ASSISTANT DISTRICT ATTORNEY FOR NEW YORK COUNTY.

1953-1955 ASSISTANT U.S. ATTORNEY FOR THE SOUTHERN DISTRICT
OF NEW YORK.

1955-1957 COUNSEL TO THE JUDICIARY SUBCOMMITTEE ON ANTITRUST
OF THE U.S. HOUSE OF REPRESENTATIVES

1957-1960 PRACTISED LAW IN NEW YORK AND SERVED AS A JUDGE OF
THE COURT OF GENERAL SESSIONS

1970-73 GENERAL COUNSEL OF THE US TREASURY DEPARTMENT

1961-1980 PARTNER IN THE LAW FIRM OF BATTLE, FOWLER, STOKES
AND KHEEL. NUMEROUS DIRECTORSHIPS.

MARRIED WITH ONE MARRIED DAUGHTER.

2. PIERCE WAS A LATE CHOICE BY REAGAN AFTER INVESTIGATIONS
REVEALED PERSONAL UNSUITABILITY OF A LEADING MEXICAN AMERICAN
(PHILIP SANCHEZ) FOR THE JOB. PIERCE'S APPOINTMENT MEETS REAGAN'S
PUBLICLY - DECLARED AIM OF INCLUDING A BLACK IN HIS CABINET.

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FM WASHINGTON 230022Z DEC 80
TO PRIORITY FCO
TELEGRAM NO 4990 OF 22 DECEMBER
INFO HMCN NEW YORK
INFO SAVING TO OTHER CG'S IN USA

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MY TELNO 4987: REAGAN CABINET APPOINTMENTS

FOLLOWING IS BIOGRAPHY OF JAMES G WATT (SECRETARY OF INTERIOR)
BORN 1938
1960 GRADUATED FROM UNIVERSITY OF WYOMING COLLEGE OF COMMERCE
AND INDUSTRY
1962 DOCTORATE IN JURISPRUDENCE FROM UNIVERSITY OF WYOMING COLLEGE
OF LAW
1962-66 LEGISLATIVE ASSISTANT AND COUNSEL TO SENATOR MILWARD
SIMPSON OF WYOMING
1966-69 SECRETARY OF THE NATURAL RESOURCES COMMITTEE AND
ENVIRONMENTAL POLLUTION ADVISORY PANEL OF THE US CHAMBER OF COMMERCE.
1969-72 DEPUTY ASSISTANT SECRETARY, DEPARTMENT OF THE INTERIOR
1972-75 DIRECTOR OF THE BUREAU OF OUTDOOR RECREATION
1975-77 VICE CHAIRMAN OF THE FEDERAL POWER COMMISSION
MARRIED, WITH TWO CHILDREN

2. WATT IS CURRENTLY PRESIDENT AND CHIEF LEGAL OFFICER OF THE
MOUNTAIN STATES LEGAL FOUNDATION, DESCRIBED IN HIS OFFICIAL
BIOGRAPHY AS QUOTE A PUBLIC INTEREST LAW CENTRE DEDICATED TO BRINGING
A BALANCE TO THE COURTS IN THE DEFENCE OF INDIVIDUAL LIBERTY AND
THE PRIVATE ENTERPRISE SYSTEM UNQUOTE. AS SUCH THE FOUNDATION HAS
FOUGHT A SUCCESSION OF LEGAL BATTLES AIMED AT LIMITING THE
FEDERAL GOVERNMENT'S POWER TO INTERVENE IN ENVIRONMENTAL PROTECTION
AND WELFARE ISSUES.

3. WATT'S APPOINTMENT IS REPORTED TO HAVE BEEN ADVOCATED BY
JOSEPH COORS, A WEALTHY ASSOCIATE OF REAGAN, WHO HAS SPENT A LOT
OF MONEY PROMOTING NUMEROUS CONSERVATIVE CAUSES AND HELPED TO
FINANCE THE HERITAGE FOUNDATION, ENVIRONMENTALIST GROUPS WHO
EXPRESSED ALARM WHEN THE NEWS OF WATT'S PROBABLE NOMINATION FIRST
BROKE HAVE NOT BEEN WHOLLY REASSURED BY REAGAN'S COMMENT THAT,
LIKE HIMSELF, WATT WAS ONLY THE ENEMY OF QUOTE ENVIRONMENTAL
EXTREMISTS UNQUOTE.

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FM WASHINGTON 230020Z DEC 80

TO PRIORITY F C O

TELEGRAM NUMBER 4989 OF 22 DECEMBER

INFO MOSCOW, PEKING, NATO POSTS, UKMIS NEW YORK, UKREP BRUSSELS,
DUBLIN, UKMIS GENEVA

INFO SAVING TO ALL CGS IN USA

MY TELNO 4987: REAGAN CABINET APPOINTMENTS

1. FOLLOWING IS BIOGRAPHICAL NOTE ON JEANE KIRKPATRICK (US REPRESENTATIVE TO THE UNITED NATIONS).

BORN 1926

GRADUATED IN 1946

1950-51 SPENT A YEAR IN FRANCE STUDYING AT THE INSTITUT D SCIENCE POLITIQUE

1962-67 ASSISTANT PROFESSOR AT TRINITY COLLEGE

1967-78 PROFESSOR IN THE DEPARTMENT OF GOVERNMENT AT GEORGETOWN UNIVERSITY

1968 PHD FROM COLUMBIA UNIVERSITY

1978 BECAME LEAVY PROFESSOR (AMERICAN VALUES) AT GEORGETOWN UNIVERSITY

AUTHOR OF THREE BOOKS - THE NEW PRESIDENTIAL ELITE - POLITICAL WOMEN - AND LEADER AND VANGUARD IN MASS SOCIETY:

A STUDY OF PERONIST ARGENTINA

MARRIED WITH THREE CHILDREN

2. JEANE KIRKPATRICK IS A LIFE-LONG DEMOCRAT (AND REAFFIRMED HER LOYALTY AT A PRESS CONFERENCE TODAY), BUT EXPRESSED HER DISILLUSIONMENT WITH DEMOCRATIC FOREIGN POLICY IN A MAGAZINE ARTICLE LAST YEAR WHICH ATTRACTED REAGAN'S ATTENTION AND SECURED HER A PLACE AS ONE OF HIS FOREIGN POLICY ADVISERS. PROFESSOR KIRKPATRICK HAS SINCE BEEN EVEN MORE CRITICAL OF THE CARTER ADMINISTRATION'S HUMAN RIGHTS POLICY: SHE BELIEVES THE US MUST HAVE FRIENDLY DEALINGS WITH QUOTE MODERATELY AUTHORITARIAN UNQUOTE REGIMES IN LATIN AMERICA AND NOT ALIGN ITSELF WITH THEIR COMMUNIST OPPONENTS THROUGH A MISGUIDED PREOCCUPATION WITH HUMAN RIGHTS AT THE EXPENSE OF WIDER INTERESTS.

3. JEANE KIRKPATRICK HAS TRAVELLED WIDELY (PARTICULARLY IN FRANCE AND SPAIN). SHE HAS TAUGHT A COURSE IN FRENCH POLITICS AT GEORGETOWN AND HAS TAKEN A CLOSE INTEREST IN SPAIN'S RETURN TO DEMOCRACY. SHE IS CURRENTLY WORKING ON A BOOK TRACING THE MEDITERRANEAN HERITAGE IN THE PUBLIC LIFE OF CENTRAL AND SOUTH AMERICA.

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4. AT THE PRESS CONFERENCE AFTER HER APPOINTMENT DR KIRKPATRICK REFUSED TO BE DRAWN ON US POLICY ON THE MIDDLE EAST IN GENERAL AND ON US SECURITY COUNCIL VOTING PATTERNS ON THE MIDDLE EAST IN PARTICULAR. SHE SAID THAT THE POLICY OF THE REAGAN ADMINISTRATION HAD NOT BEEN WORKED OUT IN DETAIL AND IT WAS THAT POLICY, RATHER THAN HER OWN VIEWS, WHICH MATTERED. SHE CAME ACROSS, AS SHE HAS DONE IN INTERVIEWS, AS FORTHRIGHT AND DETERMINED - AND WELL AWARE OF THE PITFALLS OF HER NEW JOB.

HENDERSON

Request to REYKJAVIK
referred for departmental decision,
repeated as requested to other posts.

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FM WASHINGTON 230016Z DEC
TO IMMEDIATE FCO
TELEGRAM NO 4988 OF 22 DECEMBER
INFO MOSCOW, PEKING, UKMIS NEW YORK, ALL NATO POSTS, UKREP BRUSSELS,
DUBLIN, HMCN NEW YORK UKMIS GENEVA
INFO SAVING ALL CG'S IN U.S.A.

MY IMMEDIATELY PRECEDING TELEGRAM:

REAGAN CABINET APPOINTMENTS: PRESS CONFERENCE

1. THE FOUR MEMBERS OF REAGAN'S CABINET WHO WERE NOMINATED THIS AFTERNOON APPEARED AT A PRESS CONFERENCE, TOGETHER WITH HAIG (SECRETARY OF STATE DESIGNATE) AND DONOVAN (LABOUR SECRETARY DESIGNATE) WHO WERE NOMINATED LAST WEEK.
2. HAIG, WHO FACED THE MOST QUESTIONING, DECLINED TO COMMENT ON THE LATEST MOVES OVER THE IRANIAN HOSTAGES. HE SAID THAT HE HAD ALREADY HAD A MEETING WITH SECRETARY MUSKIE AND, WHILE MUSKIE AND PRESIDENT CARTER REMAINED IN CHARGE OF FOREIGN POLICY, IT WOULD BE INAPPROPRIATE FOR HIM TO OFFER SUBSTANTIVE VIEWS. WHILE HAIG REFUSED TO ENDORSE THE ADMINISTRATION'S STAND ON THE LATEST IRANIAN CONDITIONS, HE IMPLIED THAT HE HAD NO DISAGREEMENT OF PRINCIPLE BUT WISHED TO AVOID CONFUSING THE ISSUE BY ADDING HIS VOICE.
3. ASKED HOW HIS MILITARY BACKGROUND WOULD GOVERN HIS ATTITUDE AS SECRETARY OF STATE, HAIG SAID THAT ONLY MILITARY MEN SAW AT FIRST HAND THE SACRIFICES OF WAR. HE, LIKE MOST OF HIS KIND, WAS A STRONG ADVOCATE OF INTERNATIONAL PEACE WITH JUSTICE AND HOPED TO WALK IN THE FOOTSTEPS OF SECRETARY MARSHALL. HE WAS A STRONG BELIEVER IN CIVILIAN CONTROL. HAIG SAID THAT THE US HAD EXPERIENCED SETBACKS INTERNATIONALLY, NOT JUST VIS-A-VIS ALLIES OR THOSE IN HER OWN HEMISPHERE, BUT ALSO IN RESPECT OF THE COUNTRIES OF THE THIRD WORLD ON WHOSE GOODWILL AMERICA'S FUTURE DEPENDED. AMERICA HAD TO DECIDE WHETHER TO BUILD A WORLD ON JUDAEOCHRISTIAN VALUES OR ON SOME OTHER BASIS.
4. HAIG SAID THAT HE HAD ASKED JOE CALIFANO (FORMERLY CARTER'S SECRETARY OF HEALTH, UNDER WHOM HAIG HIMSELF HAD WORKED AT THE PENTAGON IN THE 60S) TO HELP HIM PREPARE FOR HIS CONFIRMATION HEARINGS BEFORE THE SENATE FOREIGN RELATIONS COMMITTEE IN JANUARY. HE WAS PREPARED TO ANSWER THE COMMITTEE'S QUESTIONS ABOUT HIS OWN PAST AS FULLY AS POSSIBLE. MOST OF THE ALLEGATIONS WHICH HAD BEEN MADE HAD BEEN INVESTIGATED BEFORE AND THERE HAD NEVER BEEN ANY INDICATION OF CULPABILITY. AS FAR AS WATERGATE WAS CONCERNED, THIS VIEW HAD BEEN REAFFIRMED BY FORMER WATERGATE SPECIAL PROSECUTOR, LEON JAWORSKI.

HENDERSON

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GR 250
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DESKBY 230900Z

To glance.

FM WASHINGTON 230015Z DEC
TO IMMEDIATE F C O

TELEGRAM NUMBER 4987 OF 22 DECEMBER 80.

INFO MOSCOW, PEKING, UK MIS NEW YORK, ANKARA, ATHENS, BRUSSELS,
BONN, COPENHAGEN, LISBON, LUXEMBOURG, OTTAWA, OSLO, PARIS, ROME,
REYKJAVIK, THE HAGUE, UK DEL NATO, UK REP BRUSSELS, DUBLIN AND
HMCG NEW YORK, AND UKMIS GENEVA.

INFO SAVING ATLANTA, BOSTON, CHICAGO, CLEVELAND, DETROIT, HOUSTON,
LOS ANGELES, SAN FRANCISCO AND SEATTLE.

REAGAN CABINET APPOINTMENTS.

1. PRESIDENT ELECT REAGAN TODAY ANNOUNCED FOUR MORE NOMINATIONS
TO HIS CABINET -

SECRETARY OF ENERGY : GOVERNOR JAMES EDWARDS (A FORMER GOVERNOR OF
SOUTH CAROLINA).

SECRETARY OF THE INTERIOR : JAMES WATT (A COLORADO LAWYER).

SECRETARY OF HOUSING AND URBAN DEVELOPMENT : SAMUEL PIERCE (A BLACK
NEW YORK LAWYER).

REPRESENTATIVE TO THE U.N. : MRS JEANE KIRKPATRICK (PROFESSOR OF
POLITICAL SCIENCE AT GEORGETOWN UNIVERSITY).

2. BIOGRAPHICAL DETAILS FOLLOW BY SEPARATE TELEGRAMS.

3. CABINET-LEVEL NOMINATIONS STILL TO BE ANNOUNCED INCLUDE
SECRETARIES OF AGRICULTURE AND EDUCATION AND CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS.

HENDERSON

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GRS 900
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DESKBY 180930Z

FM WASHINGTON 180040Z DEC 80
TO IMMEDIATE F C O
TELEGRAM NUMBER 4957 OF 18 DECEMBER

Read in full

FOLLOWING FOR P U S

1. THE FOLLOWING POINTS EMERGED FROM THE TALK I HAD TODAY WITH RICHARD ALLEN.

HIS OWN STATUS

2. ALLEN TOLD ME THAT HE WAS GOING TO BE APPOINTED NATIONAL SECURITY ADVISER, THOUGH THIS WAS NOT YET PUBLIC. HE SAW THE ROLE AS BEING DIFFERENT FROM WHAT IT WAS UNDER HIS PREDECESSORS. THERE WOULD BE NO BIFURCATION OF FOREIGN POLICY. THIS MEANT THAT HE WOULD BE LESS ACCESSIBLE TO FOREIGN REPRESENTATIVES. HE WOULD ALSO BE KEEPING A LOW PUBLIC PROFILE. HE HAD NO PARTICULAR WISH TO LEAVE PRIVATE LIKE AND TAKE ON THE JOB. HE WOULD WORK VERY CLOSELY WITH HAIG. THEIR RELATIONS WERE EXCELLENT. HE ADDED THAT HE THOUGHT HAIG WAS GOING TO HAVE QUITE A TOUGH TIME SECURING CONFIRMATION. THE CONFIRMATION HEARINGS WHICH WERE DUE TO BEGIN ON 9 JANUARY COULD GO ON FOR QUITE A LONG TIME WHICH WOULD MEAN IN PRACTICE THAT HAIG WOULD NOT BE IN ANY POSITION TO DEAL WITH FOREIGN POLICY MUCH BEFORE 20 JANUARY.

3. IN THE MEANTIME, THERE WAS REALLY NO-ONE ELSE FOR ANYONE TO TALK TO ON FOREIGN POLICY OF THE INCOMING ADMINISTRATION EXCEPT HIMSELF SEMICLN AND HE DID NOT PRETEND THAT HE HAD ANYTHING VERY MUCH TO SAY.

THE ALLIANCE

4. IN RESPONSE TO MY QUESTION, ALLEN SAID THAT HE WAS FULLY AWARE OF THE POSSIBLE STRAIN ON THE ALLIANCE THAT A SOVIET INVASION OF POLAND MIGHT IMPOSE. HE THOUGHT THAT U.S. OPINION MIGHT TAKE A VERY HOSTILE TURN TOWARDS THE EUROPEAN ALLIES AND THAT THIS COULD BECOME QUOTE CRITICAL UNQUOTE BEFORE 20 JANUARY. HE HIMSELF UNDERSTOOD THE GERMAN MENTALITY BECAUSE HE HAD LIVED IN GERMANY, BUT VERY FEW OTHERS WHO WERE GOING TO BE IN POSITIONS OF AUTHORITY IN THE USA DID SO.

CONFIDENTIAL

/EAST/WEST RELATIONS

CONFIDENTIAL

EAST/WEST RELATIONS

5. I SAID THAT FOR THE EUROPEANS THE COROLLARY OF A TOUGH STANCE ON EAST/WEST RELATIONS AND A READINESS TO ACCEPT TNF MODERNISATION WAS THE BELIEVE THAT THE USA WERE PREPARED TO TAKE THE SUBJECT OF ARMS CONTROL SERIOUSLY. ALLEN SAID THAT THE SOVIETS KNEW THAT THE AMERICANS WERE READY TO TALK ABOUT THIS WHOLE SUBJECT, AND NOT SIMPLY ABOUT CONTROL BUT ALSO ABOUT REDUCTION. HE HIMSELF THOUGHT THAT THE DEEP CUTS THAT THE PREVIOUS ADMINISTRATION HAD TRIED TO PERSUADE THE SOVIETS TO ACCEPT IN MARCH 1977 HAD BEEN REASONABLE AND SHOULD HAVE BEEN ACCEPTABLE TO THE SOVIETS. BUT THE TROUBLE WAS THAT THE ATMOSPHERE HAD BEEN SPOILT.

MIDDLE EAST

6. I TOLD ALLEN THAT LINOWITZ, WHO WAS AT PRESENT ON A VISIT TO THE MIDDLE EAST, WAS MAKING MUCH OF THE COMMITMENT TO CAMP DAVID THAT HE, ALLEN, WAS SAID TO HAVE GIVEN ON REAGAN'S BEHALF. ALLEN IMPLIED THAT LINOWITZ WAS REALLY MAKING TOO MUCH OF THIS. THE U.S. POSITION, AT ANY RATE AT THIS STAGE, WAS STRAIGHTFORWARD. IF THE TWO PARTIES MOST CONCERNED WANTED TO PROCEED ON THE PRESENT BASIS THEN THE NEW U.S. GOVERNMENT WOULD NOT OF COURSE THWART IT. IF ON THE OTHER HAND, AS A RESULT FOR EXAMPLE OF THE ADVENT TO POWER OF A LABOUR GOVERNMENT IN ISRAEL, THE TWO PARTIES WERE NO LONGER ABLE TO NEGOTIATE ON THIS PROCESS, THEN THE U.S. WOULD LISTEN TO ALTERNATIVE WAYS OF TACKLING THE SUBJECT. I TOOK THE OPPORTUNITY OF SAYING THAT I ASSUMED THAT ONE OF THE URGENT TASKS OF THE NEW U.S. ADMINISTRATION WOULD BE TO ESTABLISH A GOOD RELATIONSHIP WITH SAUDI ARABIA AND THIS OBVIOUSLY WOULD BE AFFECTED BY THE U.S. ATTITUDE ON THE ARAB/ISRAEL PROBLEM. THIS WAS ONE OF SEVERAL ASPECTS OF THE MIDDLE EAST PROBLEM THAT WE WOULD LIKE TO DISCUSS WITH SOME MEMBER OF THE TRANSITION TEAM OR WITH THE U.S. GOVERNMENT AFTER 20 JANUARY. ALLEN SAID THAT HE COULD UNDERSTAND WHAT I HAD SAID BUT IN FACT AT THE MOMENT THERE WAS NO-ONE WITH WHOM ANYONE COULD TALK ON THIS SUBJECT EXCEPT HIMSELF AND HE HAD NOT REALLY MUCH MORE TO SAY THAN HE HAD ALREADY TOLD ME.

NAMIBIA

7. I REFERRED TO THE MEETING DUE TO TAKE PLACE ON 7 JANUARY UNDER U N AUSPICES. WE WERE ALL COMMITTED TO THE UN PLAN WHICH OFFERED THE ONLY HOPE FOR A PEACEFUL SETTLEMENT. IT WAS MOST IMPORTANT THAT THE SOUTH AFRICANS SHOULD BE READY TO GO AHEAD. IT WOULD BE HIGHLY DANGEROUS IF THEY THOUGHT THAT THEY COULD BRING ABOUT THE COLLAPSE OF THE NEGOTIATIONS ON THE GROUNDS THAT A REAGAN ADMINISTRATION MIGHT PROTECT THEM FROM THE IMPOSITION OF SANCTIONS BY THE U N. SOME REMARKS BY SOME AMERICANS MIGHT HAVE ENCOURAGED THE SOUTH AFRICANS IN THIS SENSE.

CONFIDENTIAL

8. ALLEN WAS EXTREMELY SCATHING ABOUT VARIOUS IRRESPONSIBLE REMARKS THAT HAD BEEN MADE ON THIS SUBJECT. HE ASSURED ME THAT THE SOUTH AFRICANS HAD NO GROUNDS FOR THINKING THAT THE UNITED STATES WOULD BE PREPARED TO SHELTER THEM FROM SANCTIONS IN THE WAY I HAD MENTIONED. HOWEVER, HAVING SAID THIS, ALLEN WENT ON TO EXPRESS PERSONAL DOUBTS ABOUT THE HOLDING OF ELECTIONS UNDER THE U N PLAN. BUT HE ASSURED ME A SECOND TIME THAT, WHATEVER HIS VIEWS, THE SOUTH AFRICANS HAD NO GROUNDS FOR COMING TO ANY CONCLUSION SUCH AS THE ONE I HAD SUGGESTED.

COMMENT

9. THROUGHOUT OUR CONVERSATION, IT WAS EVIDENT THAT ALLEN WANTED TO SOUND MODERATE AND REASONABLE. HE AVOIDED ANY SUGGESTION OF DRAMATIC DEPARTURES FROM OR REVERSALS OF THE PRESENT ADMINISTRATIONS POLICIES. BUT I DO NOT THINK HE HAS BEEN ABLE TO THINK THE ISSUES THROUGH IN ANY GREAT DETAIL YET: NOR HAS ANYONE ELSE.

HENDERSON

[COPIES SENT TO NO 10 DOWNING STREET]

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PS/MR HURD

PS/MR BLAKER
PS/MR RIDLEY
PS/MR LUCE
PS/PUS
SIR E YOUDE
SIR A ACLAND
MR BULLARD
SIR J GRAHAM
MR DAY
LORD BRIDGES
MR HARDING
MR FERGUSSON
MR P MOBERLY
MR J MOBERLY
SIR L ALLISON

COPIES TO

SIR R ARMSTRONG
CABINET OFFICE

CONFIDENTIAL
DESKBY 170900Z

USA

FM WASHINGTON 170015Z DEC 80
TO IMMEDIATE F C O
TEL NO 4938 OF 16 DECEMBER 1980
INFO ROUTINE MOSCOW, PEKING, UKMIS NEW YORK, ALL NATO POSTS,
UKREP BRUSSELS, DUBLIN.

MY TELNO 4927
REAGAN CABINET APPOINTMENTS.

(See over)

FOLLOWING IS BIOGRAPHICAL NOTE ON ALEXANDER HAIG
(SECRETARY OF STATE).

BORN DECEMBER 1924 IN PHILADELPHIA
1947 GRADUATED FROM U S MILITARY ACADEMY WEST POINT
SERVED AS MILITARY ASSISTANT AND ADC TO THE CHIEF OF STAFF,
FAR EAST COMMAND, DURING THE OCCUPATION OF JAPAN AND AS ADC TO
THE COMMANDER X CORPS DURING THE EARLY MONTHS OF THE KOREAN WAR.

1964 MILITARY ASSISTANT TO THE SECRETARY OF THE ARMY

1964-65 DEPUTY SPECIAL ASSISTANT TO THE SECRETARY AND
DEPUTY SECRETARY OF DEFENSE

1966-67 SERVED IN VIETNAM, BECOMING COMMANDER OF THE
1ST BATTALION 26TH INFANTRY (AWARDED DISTINGUISHED
SERVICE CROSS FOR ACTION IN VIETNAM)

1967-69 REGIMENTAL COMMANDER AND DEPUTY COMMANDANT OF THE
US MILITARY ACADEMY

1969-70 MILITARY ASSISTANT TO DR KISSINGER AS NATIONAL
SECURITY ADVISER AT THE WHITE HOUSE

1970-73 DEPUTY ASSISTANT TO THE PRESIDENT FOR NATIONAL
SECURITY AFFAIRS

1973 COMMISSIONED GENERAL AND APPOINTED VICE CHIEF OF
STAFF OF THE US ARMY

1973-74 CHIEF OF STAFF AT THE WHITE HOUSE

1974-78 COMMANDER-IN-CHIEF US EUROPEAN COMMAND AND SUPREME
ALLIED COMMANDER EUROPE

1979 PRESIDENT OF UNITED TECHNOLOGIES CORPORATION

MARRIED WITH 3 CHILDREN.

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2. HAIG WAS THE SON OF WELL-TO-DO PARENTS: HIS FATHER WAS OF SCOTTISH ORIGIN, HIS MOTHER AN IRISH CATHOLIC. HAIG HIMSELF IS A PRACTISING CATHOLIC AND HAS A BROTHER WHO IS A JESUIT PRIEST. HE HAD A SUCCESSFUL EARLY ARMY CAREER (HELPED BY HIS MARRIAGE IN 1950 TO PATRICIA FOX, DAUGHTER OF THE CHIEF OF STAFF FAR EAST COMMAND). BUT IT WAS HIS YEARS AT THE WHITE HOUSE, FIRST AS MILITARY ASSISTANT TO KISSINGER, AND LATER AS CHIEF OF STAFF TO PRESIDENT NIXON, WHICH MADE HAIG A PUBLIC AND CONTROVERSIAL FIGURE. THE MAIN ALLEGATIONS MADE AGAINST HIM ARE:

(A) THAT HE PLAYED A LEADING ROLE IN ORGANISING THE TELEPHONE TAPPING OF WHITE HOUSE AND OTHER OFFICIALS AND JOURNALISTS (INCLUDING HENRY BRANDON) BETWEEN 1969 AND 1971.

(B) THAT HE WAS INVOLVED IN THE WATERGATE COVER-UP BY ADVISING NIXON TO CONCEAL THE TRUTH (ONE OF THE WATERGATE TAPES IS OFTEN QUOTED AS EVIDENCE OF THIS): BY HIS EVASIVENESS OVER THE MYSTERIOUS ERASURE OF A KEY PORTION OF THE WATERGATE TAPES (WHICH HAIG ATTRIBUTED TO A QUOTE SINISTER FORCE UNQUOTE): AND BY HIS PART IN THE DISMISSAL OF THE SPECIAL WATERGATE PROSECUTOR ARCHIBALD COX AND SUBSEQUENT MOVES TO BLOCK THE EFFORTS OF COX'S SUCCESSOR, JAWORSKI, TO GET AT THE TRUTH:

(C) HIS ADVOCACY OF THE 1970 INVASION OF CAMBODIA AND THE 1972 CHRISTMAS BOMBING OF HANOI.

3. HAIG'S APPOINTMENT AS SACEUR WAS CRITICISED AT THE TIME BECAUSE HE WAS REGARDED AS A QUOTE POLITICAL GENERAL UNQUOTE. HE SEEMS TO HAVE LIVED DOWN THAT REPUTATION BY HIS PERFORMANCE IN BRUSSELS THOUGH IN HIS LAST FEW MONTHS IN THE JOB IT BECAME EVIDENT THAT HE WAS PREPARING THE GROUND FOR A RETURN TO POLITICS. HE HAD AMBITIONS TO RUN FOR THE PRESIDENCY BUT QUICKLY CONCLUDED THAT HE WAS QUOTE AS PROMISING A NATIONAL CANDIDATE AS THERE IS IN THE FIELD AND THE LEAST NOMINABLE UNQUOTE. HE BECAME PRESIDENT OF UNITED TECHNOLOGIES (THE PARENT COMPANY OF PRATT AND WHITNEY) IN DECEMBER 1979 AND IN APRIL 1980 UNDERWENT SUCCESSFUL HEART BYPASS SURGERY.

4. HAIG IS A STRONG SUPPORTER OF THE ALLIANCE AND HAS CONSTANTLY STRESSED THE NEED FOR BETTER CONSULTATION. HE IS CONCERNED AT CHANGES IN THE MILITARY BALANCE WITH THE SOVIET UNION AND, WHILE AVOIDING OUTRIGHT HOSTILITY TO SALT II, OPPOSED ITS RATIFICATION UNTIL THE UNITED STATES HAD TAKEN STEPS TO ENSURE ITS OWN DEFENCE AND THAT OF THE ALLIANCE IN THE STRATEGIC, THEATRE NUCLEAR, AND CONVENTIONAL FIELDS. HE IS, LIKE REAGAN, A STRONG ADVOCATE OF LINKAGE IN EAST WEST RELATIONS.

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5. THE NEW SENATE MAJORITY LEADER, HOWARD BAKER (WHO HIMSELF PLAYED A LEADING PART IN THE SENATE WATERGATE HEARINGS), IS REPORTED TO HAVE MADE A SPECIAL INVESTIGATION OF HAIG'S RECORD AND TO HAVE CONCLUDED THAT HE QUOTE CAN AND OUGHT TO BE CONFIRMED AS SECRETARY OF STATE UNQUOTE. THE GENERAL FEELING ON THE HILL IS THAT HAIG WILL FACE EXTENSIVE QUESTIONING ABOUT HIS PAST BUT THAT, IN THE ABSENCE OF NEW AND DAMAGING REVELATIONS, HIS CONFIRMATION BY THE SENATE IS NOT IN SERIOUS DOUBT.

HENDERSON

F.C.O./WH.
NAD

(Repetition to REYKJAVIK
referred for departmental decision,
repeated as requested to other posts.)

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USA

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GR 270

UNCLASSIFIED

DESKBY 112130Z

FM WASHINGTON 112055Z DEC 80

TO IMMEDIATE FCO

TELEGRAM NUMBER 4879 OF 11 DECEMBER 1980

INFO PRIORITY MOSCOW, PEKING, PARIS, BONN, UKDEL NATO, OTTAWA,
ALL OTHER EC AND NATO POSTS

THE REAGAN CABINET

1. PRESIDENT-ELECT REAGAN THIS AFTERNOON RELEASED THE NAMES OF EIGHT MEMBERS OF HIS CABINET. THE SECRETARY OF STATE HAS NOT YET BEEN NAMED. GENERAL HAIG REMAINS THE FAVOURITE BUT THOROUGH ENQUIRIES ARE BEING MADE IN AN EFFORT TO ENSURE THAT, IF NOMINATED, HE WILL SECURE SENATE CONFIRMATION WITHOUT SERIOUS DIFFICULTY.

2. THE FOLLOWING WERE APPOINTED TODAY:

SECRETARY OF THE TREASURY:	DONALD T REGAN
SECRETARY OF DEFENSE:	CASPAR W WEINBERGER
ATTORNEY GENERAL:	WILLIAM FRENCH SMITH
SECRETARY OF COMMERCE	MALCOLM BALDRIDGE
SECRETARY OF HEALTH AND HUMAN SERVICES:	SENATOR RICHARD SCHWEIKER
SECRETARY OF TRANSPORTATION:	DREW LEWIS
DIRECTOR OF THE OFFICE OF MANAGEMENT AND BUDGET:	CONGRESSMAN <u>DAVID STOCKMAN</u>
DIRECTOR OF CENTRAL INTELLIGENCE:	WILLIAM J CASEY

3. BIOGRAPHIES ARE BEING TELEGRAPHED SEPARATELY. FURTHER CABINET ANNOUNCEMENTS ARE EXPECTED TOMORROW.

(attached herewith)

HENDERSON

FCO/WHITEHALL

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GR 250

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DESKBY FCO 120900Z

FM WASHINGTON 112345Z DEC 80

TO IMMEDIATE F C O

TELEGRAM NUMBER 4884 OF 11 DECEMBER 1980

INFO IMMEDIATE UKDEL NATO

INFO PRIORITY UKMIS NEW YORK AND HMCN NEW YORK

INFO SAVING MOSCOW PARIS BONN PEKING OTTAWA ALL OTHER NATO POSTS

DUBLIN UKREP BRUSSELS AND ALL CG'S IN USA.

MY TELNO 4879 : THE REAGAN CABINET

FOLLOWING IS BIOGRAPHY OF DONALD THOMAS REGAN (SECRETARY OF THE
TREASURY)

BORN 21 DECEMBER 1918 IN BOSTON.

1940 GRADUATED FROM HARVARD UNIVERSITY.

AFTER WAR SERVICE IN THE US MARINES (ENDING AS LIEUTENANT COLONEL),
HE JOINED BROKERS MERRILL LYNCH, PIERCE, FENNER AND SMITH IN 1946,
AND HAS BEEN THEIR CHAIRMAN AND CHIEF EXECUTIVE OFFICER SINCE 1971.
HE HAS NOT HELD MAJOR PUBLIC OFFICE BEFORE, AND HIS CHOICE IS SAID
TO HAVE BEEN INFLUENCED BY MR WILLIAM CASEY, WHO GOT TO KNOW HIM
WHILE THE LATTER WAS CHAIRMAN OF THE SECURITIES AND EXCHANGE COMM-
| ISSION. HE IS REPUTED TO BE AN EXCELLENT AND TOUGH ADMINISTRATOR
WITH AN ARTICULATE, FORCEFUL STYLE, WHO WILL BE INTERESTED IN
ACHIEVING RESULTS RATHER THAN IN THEORETICAL ECONOMICS. HE IS A
CONSERVATIVE AND IS SAID TO BELIEVE THAT MANY OF THE ECONOMIC
DIFFICULTIES OF THE U.S. STEM FROM A CHRONIC FEDERAL BUDGET
DEFICIT. HIS APPOINTMENT WILL NO DOUBT PLEASE WALL STREET, WHOSE
OTHER CANDIDATE, WALTER WRISTON (CHAIRMAN OF CITICORP), APPEARS
TO HAVE FOUNDERED BECAUSE OF CONFLICT OF INTEREST PROBLEMS ARISING
FROM CITICORP'S INVOLVEMENT IN VARIOUS U.S. GOVERNMENT ACTIVITIES.
MARRIED WITH 4 CHILDREN.

FCO PLEASE ADVANCE TO TREASURY.

FCO PLEASE PASS SAVING TO MOSCOW PEKING DUBLIN UKREP BRUSSELS
ANKARA ATHENS BRUSSELS BONN COPENHAGEN LISBON LUXEMBOURG OTTAWA
OSLO PARIS ROME REYKJAVIK THE HAGUE

HENDERSON

FCO/WHITEHALL

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[REPEATED AS REQUESTED]

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DESKBY 120900Z

FM WASHINGTON 112345Z DEC 80

TO IMMEDIATE FCO

TELEGRAM NUMBER 4885 OF 11 DECEMBER 1980

AND TO IMMEDIATE MODUK

INFO IMMEDIATE UKDEL NATO, PRIORITY MOSCOW, PEKING, PARIS, BONN,
OTTAWA, ALL OTHER NATO POSTS, HMCN NY, UKMIS NY, DUBLIN, UKREP
BRUSSELS

INFO SAVING CGS IN USA

MY TELNO 4879: THE REAGAN CABINET

1. FOLLOWING IS BIOGRAPHY OF CASPAR W (CAP) WEINBERGER
(SECRETARY OF DEFENSE):

BORN AUGUST 1917 IN SAN FRANCISCO EDUCATED AT HARVARD AND HARVARD
LAW SCHOOL.

1941-45 WAS SERVICE IN THE US ARMY, INCLUDING SERVICE ON GENERAL
MACARTHUR'S INTELLIGENCE STAFF.

1945-69 PRACTISED AS A LAWYER

1952-58 MEMBER OF THE CALIFORNIA LEGISLATURE

1968-70 DIRECTOR OF FINANCE OF THE STATE OF CALIFORNIA UNDER GOVERNOR
REAGAN

1970 CHAIRMAN OF THE FEDERAL TRADE COMMISSION

1970-73 DEPUTY DIRECTOR AND LATER DIRECTOR OF THE OFFICE OF
MANAGEMENT AND BUDGET

1973-75 SECRETARY OF HEALTH EDUCATION AND WELFARE IN THE NIXON
AND FORD CABINETS.

1975-80 VICE PRESIDENT OF THE BECHTEL POWER CORPORATION, SAN
FRANCISCO.

MARRIED WITH 2 CHILDREN

WEINBERGER IS ONE OF REAGAN'S CLOSEST AND MOST TRUSTED ADVISERS
AND WAS THE PRINCIPAL ARCHITECT OF REAGAN'S EFFORTS TO CUT PUBLIC
EXPENDITURE AS GOVERNOR OF CALIFORNIA. HE WAS ONE OF THE MAIN
INFLUENCES ON REAGAN'S ECONOMIC THINKING DURING THE CAMPAIGN AND
(WITH ALAN GREENSPAN) PERSUADED REAGAN TO OPT FOR A POLICY OF
TAX CUTS COMBINED WITH CUTS IN GOVERNMENT EXPENDITURE. AS VICE
PRESIDENT OF THE BECHTEL CORPORATION WEINBERGER HAS TRAVELLED
WIDELY, PARTICULARLY IN THE MIDDLE EAST. HE HAS NO DIRECT DEFENCE
EXPERIENCE BUT HIS CLOSENESS TO REAGAN WILL MAKE HIM A KEY
FIGURE IN THE CABINET. NOTWITHSTANDING HIS PAST RECORD AS AN
EFFECTIVE BUDGET-CUTTER (WHICH EARNED HIM THE NICKNAME CAP THE
KNIFE), HE HAS ALREADY MADE CLEAR HIS SUPPORT FOR INCREASED
DEFENCE SPENDING. ANGLOPHILE.

HENDERSON

FCO/WHITEHALL

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DESKBY 120900Z

FM WASHINGTON 112345Z DEC 80

TO IMMEDIATE F C O

TELEGRAM NUMBER 4886 OF 11 DECEMBER

INFO PRIORITY UKDEL NATO CG NEW YORK UKMIS NEW YORK

INFO SAVING MOSCOW PARIS BONN PEKING OTTAWA DUBLIN UKREP BRUSSELS

ALL OTHER NATO POSTS.

MY TELNO 4879: THE REAGAN CABINET

1. FOLLOWING IS BIOGRAPHY OF WILLIAM FRENCH SMITH (ATTORNEY GENERAL):

BORN WILTON, NEW HAMPSHIRE 26 AUGUST 1917 AND BROUGHT UP IN BOSTON

1939 GRADUATED SUMMA CUM LAUDE UNIVERSITY OF CALIFORNIA

1942 GRADUATED FROM HARVARD UNIVERSITY LAW SCHOOL

SMITH IS A SENIOR PARTNER AND AN ADMINISTRATOR OF GIBSON, DUNN AND

CRUTCHER, ONE OF THE TWO LARGEST LAW FIRMS IN LOS ANGELES, WITH

WHOM HE HAS BEEN SINCE 1946, SPECIALISING IN LABOUR NEGOTIATIONS.

HE HAS ALSO BEEN PROMINENT IN LOS ANGELES PUBLIC LIFE EG AS

PRESIDENT OF THE WORLD AFFAIRS COUNCIL AND AS A MEMBER AND PAST

CHAIRMAN OF THE BOARD OF REGENTS OF THE UNIVERSITY OF CALIFORNIA

(TO WHICH HE WAS APPOINTED BY REAGAN AS GOVERNOR OF CALIFORNIA).

SMITH HAS BEEN REAGAN'S PERSONAL LAWYER AND CLOSE FRIEND FOR MANY

YEARS AND IS CHAIRMAN OF THE COMMITTEE OF REAGAN'S CLOSEST

ASSOCIATES WHICH HAS BEEN RECOMMENDING CANDIDATES FOR APPOINTMENTS

IN THE NEW ADMINISTRATION. HE IS WIDELY REGARDED AS THE ABLEST OF

REAGAN'S QUOTE KITCHEN CABINET UNQUOTE OF OLD CALIFORNIA FRIENDS

AND AS LIKELY TO BE ONE OF REAGAN'S MOST TRUSTED COUNSELLORS IN

GOVERNMENT. MARRIED WITH 4 CHILDREN.

FCO PASS SAVING MOSCOW PEKING DUBLIN UKREP BRUSSELS ANKARA ATHENS

BRUSSELS BONN COPENHAGEN LISBON LUXEMBOURG OTTAWA OSLO PARIS ROME

REYKJAVIK THE HAGUE

HENDERSON

[REPEATED AS REQUESTED]

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DESKBY 120900Z

FM WASHINGTON 112345Z DEC 80

TO IMMEDIATE FCO

TELEGRAM NUMBER 4887 OF 11 DECEMBER

INFO PRIORITY UKDEL NATO C G NEW YORK UKMIS NEW YORK

INFO SAVING MOSCOW PEKING PARIS BONN OTTAWA ALL OTHER NATO POSTS

DUBLIN UKREP BRUSSELS CGS IN USA.

MY TELNO 4879: THE REAGAN CABINET

1. FOLLOWING IS BIOGRAPHY OF MALCOLM BALDRIGE (SECRETARY OF COMMERCE)

BORN 1922

YALE GRADUATE

1945 - 1946 CAPTAIN, US ARMY

1947 JOINED EASTERN COMPANY AS FOUNDRY FOREMAN

1960 - 1962 PRESIDENT, EASTERN COMPANY

1962 EXECUTIVE VICE PRESIDENT, SCOVILL INC

1963 PRESIDENT AND CHIEF EXECUTIVE OFFICER, SCOVILL INC

1969 CHAIRMAN AND CHIEF EXECUTIVE OFFICER, SCOVILL INC

ALSO DIRECTOR OF AMF INC, IMB INC, BENDIX CORPORATION, CONNECTICUT MUTUAL LIFE INSURANCE COMPANY, EASTERN COMPANY, UNIRO^{YAL} INC.

MEMBER OF THE BUSINESS COUNCIL, THE COUNCIL ON FOREIGN RELATIONS, INC, INTERNATIONAL CHAMBER OF COMMERCE, AND THE CITIZENS RESEARCH FOUNDATION. RAN GEORGE BUSH'S PRIMARY ELECTION CAMPAIGN IN CONNECTICUT. MARRIED: TWO CHILDREN.

A CONNECTICUT INDUSTRIALIST, CURRENTLY CHAIRMAN AND CHIEF EXECUTIVE OF SCOVILL INC, MANUFACTURERS OF HOUSING PRODUCTS, HOUSEWARE AND AUTOMOTIVE PRODUCTS. ANNUAL SALES APPROXIMATELY DOLLARS 756 MILLION. SCOVILL HAVE 12 MANUFACTURING DIVISIONS AROUND THE US AND SOME 35 FOREIGN SUBSIDIARIES INCLUDING IN ENGLAND (SCHRADER BELLOWS LTD, SCOVILL SECURITY PRODUCTS LTD, SCHRADER BELLOWS-CANNOCK, AND SCHRADER ENGLAND-AUTOMOTIVE).

AT TODAY'S PRESS CONFERENCE BALDRIGE SAID THAT ONE OF THE FIRST PRIORITIES OF THE DEPARTMENT OF COMMERCE WOULD BE TO ASSIST US INDUSTRY TO INCREASE PRODUCTIVITY. THERE WAS A NEED FOR MANAGEMENT, LABOUR AND GOVERNMENT TO COME TOGETHER TO SOLVE THE COUNTRY'S PRODUCTIVITY PROBLEMS. TOO OFTEN LABOUR HAD BEEN TAGGED WITH THE RESPONSIBILITY FOR POOR PRODUCTIVITY. THEY WERE NOT ALONE TO BLAME. THERE WAS ROOM FOR GREATER CO-OPERATION ALL ROUND.

FCO PASS SAVING MOSCOW PEKING DUBLIN UKREP BRUSSELS ANKARA ATHENS
BRUSSELS BONN COPENHAGEN LISBON LUXEMBOURG OTTAWA OSLO PARIS ROME
REYKJAVIK THE HAGUE

HENDERSON

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DESKBY 120900Z FCO

FM WASHINGTON 112345Z DEC 80

TO IMMEDIATE F C O

TELEGRAM NUMBER 4888 OF 11 DECEMBER 1980

INFO PRIORITY UKDEL NATO UKMIS NEW YORK AND C G NEW YORK

INFO SAVING MOSCOW PEKING PARIS BONN OTTAWA DUBLIN UKREP BRUSSELS

ALL OTHER NATO POSTS AND ALL CG'S IN USA

MY TELNO 4879: THE REAGAN CABINET

1. FOLLOWING IS BIOGRAPHY OF RICHARD S SCHWEIKER (SECRETARY OF HEALTH AND HUMAN SERVICES)

BORN 1926, THE SON OF A PENNSYLVANIAN BRICKLAYER OF GERMAN ORIGIN SERVED IN THE NAVY DURING WORLD WAR II

1950 GRADUATED FROM PENNSYLVANIA STATE UNIVERSITY

WORKED IN THE PROSPEROUS TILE COMPANY FOUNDED BY HIS FATHER

1961-69 CONGRESSMAN FOR PENNSYLVANIA'S 13TH DISTRICT

1969-80 SENATOR FOR PENNSYLVANIA

1976 APPOINTED BY GOVERNOR REAGAN AS HIS PROSPECTIVE RUNNING MATE MARRIED WITH 5 CHILDREN

AS A CONGRESSMAN, SCHWEIKER ESTABLISHED A REPUTATION AS A LIBERAL REPUBLICAN, BACKED BY THE LABOUR UNIONS. HE CONSISTENTLY SUPPORTED CIVIL RIGHTS LEGISLATION AND VOTED IN FAVOUR OF MEDICARE, SOCIAL SECURITY INCREASES, FEDERAL RENT SUBSIDIES, AND WELFARE REFORM. HE WAS AN EARLY SUPPORTER OF THE VIETNAM WAR BUT LATER BECAME ONE OF ITS MOST DETERMINED OPPONENTS. IN HIS FIRST YEARS IN THE SENATE HE MAINTAINED HIS LIBERAL REPUTATION, VOTING TO BLOCK NOMINATIONS BY PRESIDENT NIXON TO THE SUPREME COURT. HE APPEARED ON THE NIXON WHITE HOUSE LIST OF ENEMIES AND WAS ONE OF THE FIRST REPUBLICAN SENATORS TO CALL FOR NIXON'S RESIGNATION AFTER WATERGATE. IN 1976, REAGAN PICKED SCHWEIKER AS HIS POTENTIAL RUNNING MATE AHEAD OF THE REPUBLICAN CONVENTION IN AN UNSUCCESSFUL ATTEMPT TO DRAW MODERATE SUPPORT AWAY FROM PRESIDENT FORD. SCHWEIKER WAS STILL WIDELY REGARDED AS A LIBERAL AND THE MOVE LOOKED LIKE OPPORTUNISM AT THE TIME THOUGH REAGAN CLAIMED THAT SCHWEIKER WAS CLOSE TO HIM ON MANY ISSUES. SINCE 1976 SCHWEIKER HAS BEEN A QUOTE BORN AGAIN CONSERVATIVE UNQUOTE AND WAS NAMED BY A LEADING LIBERAL PRESSURE GROUP WHICH HAD CONSISTENTLY SUPPORTED HIM AS THEIR DISAPPOINTMENT OF THE YEAR. HE OPPOSED THE PANAMA CANAL TREATIES AND TOOK A CONSERVATIVE LINE ON ABORTION AND SCHOOL BUSING. HE WAS DUE TO RETIRE FROM THE SENATE THIS YEAR TO RETURN TO HIS FAMILY BUSINESS.

FCO PLEASE PASS SAVING MOSCOW PEKING DUBLIN UKREP BRUSSELS ANKARA ATHENS BRUSSELS BONN COPENHAGEN LISBON LUXEMBOURG OTTAWA OSLO PARIS ROME REYKJAVIK THE HAGUE.

HENDERSON

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DESKBY 120900Z

FM WASHINGTON 112345Z DEC 80

TO IMMEDIATE FCO

TELEGRAM NUMBER 4889 OF 11 DECEMBER 1980

INFO PRIORITY UKDEL NATO, CG NEW YORK, UKMIS NEW YORK

INFO SAVING MOSCOW, PARIS, BONN, PEKING, OTTAWA, ALL OTHER NATO
POSTS, DUBLIN, UKREP BRUSSELS.

MY TELNO 4879: THE REAGAN CABINET

1. FOLLOWING IS BIOGRAPHY OF ANDREW (DREW) L LEWIS (SECRETARY
OF TRANSPORTATION):

BORN 1931 IN PENNSYLVANIA

EDUCATED AT HAVERFORD COLLEGE, PENNSYLVANIA ROSE FROM FACTORY
FOREMAN TO PRODUCTION MANAGER IN INDUSTRY AND LATER BECAME VICE
PRESIDENT FOR SALES AND DIRECTOR OF THE FAMILY FIRM RUN BY SENATOR
SCHWEIKER.

DREW LEWIS HAS BEEN ACTIVE IN REPUBLICAN POLITICS IN PENNSYLVANIA,
CHAIRING SCHWEIKER'S ELECTION COMMITTEES FROM 1960 ONWARDS. HE
HAS BEEN A REGULAR DELEGATE FROM PENNSYLVANIA TO REPUBLICAN
CONVENTIONS AND WAS REPUBLICAN NATIONAL COMMITTEEMAN FOR THE STATE
IN 1976, WHEN HE RAN UNSUCCESSFULLY FOR GOVERNOR. HE WAS APPOINTED
DEPUTY CHAIRMAN OF THE REPUBLICAN NATIONAL COMMITTEE AFTER REAGAN
HAD WON THE REPUBLICAN NOMINATION IN WHAT WAS SEEN AS A MOVE TO
UNDERCUT THE REPUBLICAN NATIONAL CHAIRMAN, BILL BROCK, WHO WAS
REGARDED AS TOO LIBERAL. LEWIS HAS BEEN DEPUTY DIRECTOR OF
REAGAN'S TRANSITION OFFICE.

MARRIED WITH 3 CHILDREN.

FCO PASS SAVING MOSCOW PEKING DUBLIN UKREP BRUSSELS ANKARA ATHENS
BRUSSELS BONN COPENHAGEN LISBON LUXEMBOURG OTTAWA OSLO PARIS ROME
REYKJAVIK THE HAGUE

HENDERSON

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DESKBY FCO 120900Z

FM WASHINGTON 112345Z DEC 80

TO IMMEDIATE F C O

TELEGRAM NUMBER 4890 OF 11 DECEMBER 1980

INFO PRIORITY UKDEL NATO UKMIS NEWYORK AND HMCN NEW YORK

INFO SAVING MOSCOW PEKING PARIS BONN OTTAWA DUBLIN UKREP BRUSSELS

ALL OTHER NATO POSTS AND ALL CG'S IN USA

MY TELNO 4879: THE REAGAN CABINET

1. FOLLOWING IS BIOGRAPHY OF DAVID A STOCKMAN (DIRECTOR OF THE OFFICE OF MANAGEMENT AND BUDGET):

BORN 1946 IN TEXAS

EDUCATED AT MICHIGAN STATE UNIVERSITY AND HARVARD

1970-72 STAFF AIDE TO CONGRESSMAN JOHN ANDERSON OF ILLINOIS

1972-75 DIRECTOR OF THE REPUBLICAN CONFERENCE (THE CAUCUS OF ALL REPUBLICAN MEMBERS OF THE HOUSE)

1975 FELLOW AT HARVARD UNIVERSITY'S JFK SCHOOL OF GOVERNMENT

1976-80 REPUBLICAN CONGRESSMAN FOR MICHIGAN'S 4TH DISTRICT

BRIGHT, ENTERTAINING AND FORCEFUL, STOCKMAN (WHO IS UNMARRIED) ENTERED THE HOUSE OF REPRESENTATIVES AT THE AGE OF 30 WHERE HE QUICKLY BECAME KNOWN AS WHAT COLUMNIST GEORGE WILL CALLED QUOTE SOUTHERN MICHIGAN'S CONTRIBUTION TO INTELLIGENT GOVERNMENT UNQUOTE. HE WAS ONE OF THE FIRST YOUNG REPUBLICANS TO TRY TO BREAK AWAY FROM OLD POLICY FIGHTS BETWEEN LIBERALS AND CONSERVATIVES AND TO LOOK FOR A QUOTE MORE MARKET ORIENTED VIEW OF THINGS WITH A MORE MINIMAL GOVERNMENT ROLE UNQUOTE. HE WROTE THE ENERGY SECTION OF THE 1980 REPUBLICAN PARTY PLATFORM AND IS BELIEVED TO HAVE TURNED DOWN AN OFFER OF THE POST OF ENERGY SECRETARY, THOUGH HE WILL NO DOUBT RETAIN AN INTEREST IN THIS POLICY AREA. A STRONG PROPONENT OF EXPENDITURE CUTS AND QUOTE SUPPLY SIDE UNQUOTE ECONOMICS, HE IS REPORTED TODAY TO HAVE SUBMITTED A MEMORANDUM, TOGETHER WITH REPRESENTATIVE JACK KEMP, URGING REAGAN TO INTRODUCE AN EMERGENCY ECONOMIC PROGRAMME INCLUDING TAX CUTS AND CUTS IN PUBLIC SPENDING OF DOLLARS 16 BILLION IN THE CURRENT FISCAL YEAR, FOLLOWED BY FURTHER SPENDING CUTS OF BETWEEN DOLLARS 30 TO DOLLARS 50 BILLION IN EACH OF THE FOLLOWING YEARS. AS DIRECTOR OF OMB STOCKMAN WILL BE IN THE KEY POSITION TO TRY TO IMPLEMENT SUCH PROPOSALS.

FCO PLEASE ADVANCE TO TREASURY.

FCO PLEASE PASS SAVING TO MOSCOW PEKING DUBLIN UKREP BRUSSELS ANKARA ATHENS BRUSSELS BONN COPENHAGEN LISBON LUXEMBOURG OTTAWA OSLO PARIS ROME REYKJAVIK THE HAGUE.

HENDERSON

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FM WASHINGTON 112345Z DEC 80
TO IMMEDIATE FCO
TELEGRAM NUMBER 4891 OF 11 DECEMBER 1980
AND TO IMMEDIATE CABINET OFFICE (FOR SECRETARY JIC), MODUK FOR
DI5(CS)
INFO PRIORITY MOSCOW, PEKING, PARIS, BONN, UKDEL NATO, OTTAWA,
ALL OTHER NATO POSTS, HMCN NEW YORK, UKMIS NEW YORK, DUBLIN,
UKREP BRUSSELS
INFO SAVING CGS IN USA

MY TELNO 4879: THE REAGAN CABINET

1. FOLLOWING IS BIOGRAPHY OF WILLIAM J CASEY (DIRECTOR OF CENTRAL INTELLIGENCE):

BORN 1913 IN NEW YORK

A CAREER LAWYER AND COUNSEL TO A RESPECTED NEW YORK LAW FIRM. DIRECTOR OF NEW YORK COMPANIES. CHAIRMAN OF THE EXECUTIVE COMMITTEE OF THE INTERNATIONAL RESCUE COMMITTEE, AND CO-CHAIRMAN OF THE CITIZENS' COMMISSION ON INDO-CHINESE REFUGEES.

HAS PLAYED A PART IN MANY REPUBLICAN PRESIDENTIAL CAMPAIGNS AND ASSUMED MANAGEMENT OF THE REAGAN CAMPAIGN AFTER THE SACKING OF SEARS IN FEBRUARY 1980. CHAIRMAN OF THE EXECUTIVE COMMITTEE OF THE OFFICE OF PRESIDENT-ELECT, CHAIRMAN OF THE INTERIM FOREIGN POLICY ADVISORY BOARD AND A MEMBER OF THE TRANSITION APPOINTMENTS COMMITTEE.

IN THE US NAVAL RESERVE IN WORLD WAR II, HE WAS AN AIDE TO WILLIAM B DONOVAN IN THE WASHINGTON HQ OF THE OFFICE OF STRATEGIC SERVICES, CHIEF OF THE OSS LONDON HQ, AND CHIEF OF SECRET INTELLIGENCE FOR GENERAL EISENHOWER'S THEATRE OF WAR.

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/FROM 1969-77

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FROM 1969-77 HE SERVED ON A NUMBER OF PRESIDENTIAL COMMISSIONS INCLUDING THE PRESIDENT'S FOREIGN INTELLIGENCE ADVISORY BOARD, THE COMMISSION ON ORGANISATION FOR THE CONDUCT OF FOREIGN POLICY, THE GENERAL ADVISORY COMMITTEE ON ARMS CONTROL AND THE PRESIDENTIAL TASK FORCE ON INTERNATIONAL DEVELOPMENT. FROM APRIL 1971 TO JANUARY 1976, HE WAS PRESIDENT AND CHAIRMAN OF THE EXPORT-IMPORT BANK OF THE US AND SUCCESSIVELY CHAIRMAN OF THE SECURITIES AND EXCHANGE COMMISSION AND UNDER SECRETARY FOR ECONOMIC AFFAIRS, IN THE DEPARTMENT OF STATE.

AUTHOR OF A NUMBER OF BOOKS ON LAW, TAX AND BUSINESS ADMINISTRATION. HE IS MARRIED WITH ONE DAUGHTER.

CASEY DESCRIBES HIMSELF AS A STRONG CONSERVATIVE BUT HE IS BEST KNOWN AS A PRAGMATIST. HE WAS NOT THE PRINCIPAL STRATEGIST OF THE REAGAN CAMPAIGN BUT HELPED TO RESTORE ORDER TO WHAT HAD BEEN A BADLY MANAGED AND SPENDTHRIFT CAMPAIGN ORGANISATION. AT THE PRESS CONFERENCE ON 11 DECEMBER INTRODUCING HIM AND 7 OTHER CABINET NOMINEES, HE WAS NON-COMMITAL ABOUT ANY POSSIBLE RE-ORGANISATION IN THE US INTELLIGENCE COMMUNITY, BUT MAY BE EXPECTED TO WORK FOR THE RESTORATION OF SOME AT LEAST OF THE TRADITIONAL CLANDESTINE APPROACH. HE IS VERY CLOSE TO REAGAN. THIS, HIS EXPERIENCE, AND HIS CABINET POSITION WILL MAKE HIM MORE INFLUENTIAL THAN MANY OF HIS PREDECESSORS, AND CERTAINLY THAN ADMIRAL TURNER.

HENDERSON

FCO/WHITEHALL

NAD



THE VICE PRESIDENT
WASHINGTON

December 9, 1980

The Right Honorable
Margaret Thatcher, M.P.
Prime Minister of the United
Kingdom of Great Britain
and Northern Ireland
London

Dear Madam Prime Minister:

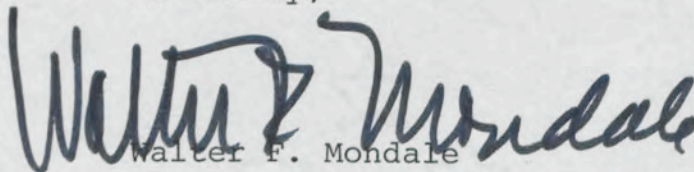
During the years I have been privileged to serve as Vice President one of my greatest rewards has been the opportunity to participate in the process of deepening friendship and cooperation between the United Kingdom and the United States.

I have welcomed the opportunity to come to know you and to work with you and your government on so many issues of importance to both our peoples. Our consultations have permitted us to build on the policies and programs we share as democratic friends and allies.

Over the past four years, the United States under the leadership of President Carter has worked to maintain the peace and to implement a foreign policy based on our most cherished and enduring values. The success we have realized has been due in large part to the superb relationship we have enjoyed with you and the British people. As a result, we enter the 1980s with renewed confidence in the strength and purpose of the North Atlantic Alliance, and in the ability of our nations to contribute to the shaping of a more peaceful, stable world.

With best regards,

Sincerely,


Walter F. Mondale

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FM WASHINGTON 090150Z DEC 80
TO ROUTINE FCO
TELEGRAM NO 4851 OF 8 DECEMBER
INFO UKDEL NATO PARIS BONN

Read in full -

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MY TELNO 4785: THE REAGAN TRANSITION: CABINET APPOINTMENTS

1. AFTER SPENDING THE LAST TWO WEEKS QUIETLY IN CALIFORNIA, PRESIDENT -ELECT REAGAN IS VISITING NEW YORK ON MONDAY AND TUESDAY AND WILL COME ON TO WASHINGTON ON WEDNESDAY FOR THE REST OF THE WEEK FOR MEETINGS WITH HIS TRANSITION TEAMS, CONGRESSIONAL LEADERS AND OTHERS.

2. SOURCES CLOSE TO REAGAN ARE REPORTED TO BE HOPING THAT HE WILL BE ABLE TO ANNOUNCE HIS FIRST BATCH OF CABINET APPOINTMENTS THIS WEEK. THE SELECTION PROCESS HAS BEEN DELAYED BOTH BY CONFLICTING POLITICAL PRESSURES BROUGHT TO BEAR FOR AND AGAINST POTENTIAL APPOINTEES (MY TELEGRAM UNDER REFERENCE); AND BY THE COMPLICATED BUSINESS OF COMPLIANCE WITH THE FINANCIAL DISCLOSURE AND CONFLICT OF INTEREST PROVISIONS OF THE ETHICS IN GOVERNMENT ACT OF 1978 (WHICH, BESIDES IMPOSING DELAYS ON THE ANNOUNCEMENT OF APPOINTMENTS, ARE SUFFICIENTLY RIGOROUS TO ACT AS A REAL DISINCENTIVE TO ACCEPTANCE OF SENIOR GOVERNMENT OFFICE FOR SOME POTENTIAL APPOINTEES).

3. THE LATEST HICCOUGH CONCERNS HAIG'S RUMOURED APPOINTMENT AS SECRETARY OF STATE. THE WASHINGTON POST REPORTED ON 6 DECEMBER THAT SENATOR HOWARD BAKER, THE REPUBLICAN SENATE MAJORITY LEADER - DESIGNATE, HAD WARNED REAGAN'S ADVISERS THAT HAIG COULD RUN INTO TROUBLE IN HIS CONFIRMATION HEARINGS IN THE SENATE OVER HIS ROLE AS NIXON'S WHITE HOUSE CHIEF OF STAFF DURING THE WATERGATE PERIOD. THIS WAS CONFIRMED THE SAME DAY BY SENATOR ROBERT BYRD, THE CURRENT MAJORITY LEADER, WHO SAID AT HIS WEEKLY PRESS CONFERENCE THAT HAIG'S NOMINATION WOULD RECEIVE INTENSE SCRUTINY BY DEMOCRATIC SENATORS. BYRD ADDED THAT QUESTIONS ABOUT HAIG'S ROLE WERE SUFFICIENTLY SERIOUS FOR IT TO BE POSSIBLE THAT HE WOULD NOT BE CONFIRMED. UNNAMED ADVISERS TO REAGAN HAVE SINCE BEEN QUOTED AS HINTING THAT HAIG'S NOMINATION MAY NOW INDEED BE IN DOUBT. BUT RICHARD ALLEN, INTERVIEWED ON ABC'S ISSUES AND ANSWERS ON 7 DECEMBER, SOUGHT TO PLAY DOWN SUGGESTIONS THAT HAIG'S BEHAVIOUR DURING WATERGATE HAD BEEN ANYTHING BUT PROPER; AND, WHILE EMPHASISING THAT THE DECISION WAS FOR REAGAN TO MAKE, EXPRESSED HIS CONFIDENCE THAT, IF NOMINATED, HAIG WOULD BE CONFIRMED BY THE SENATE.

4. IT HAS ALSO BEEN SUGGESTED TO ME THAT THERE COULD BE SOME CONGRESSIONAL UNHAPPINESS AT THE IMPLICATIONS OF THE APPOINTMENT OF A MILITARY MAN AS SECRETARY OF STATE (THE PRECEDENT SET BY GENERAL GEORGE MARSHALL NOTWITHSTANDING).

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5. ANOTHER NAME ON REAGAN'S CABINET SHORT LIST WHOSE PROSPECTS ARE SAID TO BE WEAKENING IS WALTER WRISTON, WHO HAS BEEN STRONGLY RUMOURED TO BE REAGAN'S CHOICE FOR TREASURY SECRETARY. IT IS NOW BEING SUGGESTED THAT WRISTON'S PRESENT POSITION AS CHAIRMAN OF CITICORP COULD GIVE RISE TO CONFLICT OF INTEREST PROBLEMS FOR HIM BECAUSE OF THE BANK'S INVOLVEMENT IN IRANIAN FINANCIAL CLAIMS, THE CHRYSLER BAIL-OUT AND OTHER CONTROVERSIAL ISSUES.

6. REAGAN'S TIMETABLE FOR ANNOUNCING HIS PRINCIPAL CABINET APPOINTMENTS IS NOW AT LEAST A WEEK BEHIND SCHEDULE, THEREBY PROLONGING THE DELAY IN DEVELOPING THE FUTURE ADMINISTRATION'S POSITIONS OVER THE WHOLE RANGE OF GOVERNMENT POLICY. MEANWHILE, REPORTS BY THE TRANSITION TEAMS EXAMINING THE STRUCTURE AND PERFORMANCE OF VARIOUS GOVERNMENT DEPARTMENTS AND AGENCIES ARE BEING REGULARLY LEAKED TO THE NEW YORK TIMES, NO DOUBT AS A CONSEQUENCE OF BATTLES AMONGST RIVAL FACTIONS IN THE REAGAN CAMP.

HENDERSON

[THIS TELEGRAM WAS NOT ADVANCED]

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FM WASHINGTON 040125Z DEC 80

TO PRIORITY F C O

TELEGRAM NUMBER 4785 OF 3 DECEMBER

INFO BONN, PARIS, UKMIS NEW YORK, HMCN NEW YORK, UKDEL NATO,
MOSCOW AND PEKING

THE TRANSITION: APPOINTMENTS TO MR REAGAN'S CABINET

1. REAGAN'S FIRST CABINET APPOINTMENTS ARE LIKELY TO BE ANNOUNCED WITHIN THE NEXT FEW DAYS. RUMOURS ABOUT WHO WILL FILL WHAT SLOT HAVE HARDENED IN THE LAST 48 HOURS, BASED ON LEAKS FROM REPUBLICAN SOURCES. THE MAJOR NEWSPAPERS ARE NOW REPORTING THAT THE TOP FOUR CABINET JOBS HAVE BEEN DECIDED. MOST OF THE PAPERS BELIEVE THE LINE-UP WILL BE AS FOLLOWS:

SECRETARY OF STATE: GENERAL ALEXANDER HAIG (FORMER SACEUR)
SECRETARY OF DEFENCE: CASPAR WEINBERGER (VICE PRESIDENT OF BECHTEL CORPORATION, FORMERLY NIXON'S SECRETARY OF HEALTH EDUCATION AND WELFARE AND DIRECTOR OF THE OFFICE OF MANAGEMENT AND BUDGET)
SECRETARY OF THE TREASURY: WALTER B WRISTON (CHAIRMAN OF CITICORP, THE LARGEST NEW YORK BANK)
ATTORNEY-GENERAL: WILLIAM FRENCH SMITH (REAGAN'S PERSONAL ATTORNEY AND FRIEND OF LONG-STANDING). HOWEVER ALL THIS WILL REMAIN SPECULATIVE UNTIL ANNOUNCEMENTS ARE MADE.

2. GEORGE SHULTZ (WHO WAS THE FAVOURITE FOR SECRETARY OF STATE) AND WILLIAM SIMON (FAVOURITE FOR THE TREASURY) MADE IT CLEAR DURING THE LAST WEEK THAT THEY WOULD NOT ACCEPT CABINET JOBS. ALTHOUGH SHULTZ HAS CLAIMED THAT HE DID NOT WANT ANOTHER SPELL IN GOVERNMENT AND PREFERRED TO REMAIN IN HIS PRESENT JOB WITH BECHTEL, HIS DECISION APPEARS TO BE A RECENT ONE AND MAY REFLECT MUCH PUBLICISED HOSTILITY TO HIS APPOINTMENT FROM THE ISRAELI LOBBY, BECAUSE OF BECHTEL'S INVOLVEMENT IN SAUDI ARABIA. SIMON HAD EARLIER MADE LITTLE SECRET OF HIS BELIEF THAT HE WOULD GET THE TREASURY JOB AND A NUMBER OF LEADING REPUBLICANS INCLUDING SENATOR DOLE (WHO WILL BE CHAIRMAN OF THE SENATE FINANCE COMMITTEE FROM JANUARY) AND EX-PRESIDENT FORD SEEM TO HAVE COMBINED TO KNIFE HIM. SIMON IS WIDELY DISLIKED PERSONALLY AND REGARDED BY SOME AS TOO HARDLINE AND INFLEXIBLE ON POLICY. HE TOO HAS LUCRATIVE BUSINESS CONNECTIONS WITH SAUDI ARABIA AND THIS MAY HAVE BEEN ANOTHER FACTOR AGAINST HIM.

3. THE APPOINTMENT OF CABINET SECRETARIES WILL HELP TO CLARIFY THE SOMEWHAT DIFFUSE LINES OF COMMAND WITHIN THE REAGAN TRANSITION ORGANISATION AND WILL ENABLE SERIOUS HIGH LEVEL CONSIDERATION TO BE GIVEN TO THE POLICY PAPERS ON WHICH THE VARIOUS TRANSITION TEAMS ARE LABOURING. BUT THE VACUUM OF POWER IN AMERICA WILL REMAIN UNTIL 20 JANUARY: AND THE MUDDLE WHICH IS INEVITABLE WHEN SOME 4000 JOBS CHANGE HANDS MAY WELL CONTINUE FOR SOME TIME THEREAFTER.

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4. MEANWHILE A MEETING OF THE SENATE REPUBLICAN LEADERSHIP ON 2 DECEMBER FORMALLY ELECTED SENATOR HOWARD BAKER AS MAJORITY LEADER OF THE NEW SENATE WHICH WILL CONVENE IN JANUARY. NEW COMMITTEE ASSIGNMENTS AND CHAIRMANSHIPS SHOULD BE SETTLED BY THE TIME THE PRESENT CONGRESS ADJOURNS AT THE END OF THIS WEEK. BAKER'S STAFF TELL US THAT HE IS ALREADY GETTING IN HAND THE PRELIMINARY GROUND WORK TO ENABLE CONFIRMATION HEARINGS ON PRESIDENT-ELECT REAGAN'S APPOINTEES TO BE COMPLETED EXPEDITIOUSLY BY THE NEW SENATE.

HENDERSON

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FM WASHINGTON 242325Z NOV 80

TO ROUTINE F C O

TELEGRAM NO 4678 OF 24 NOVEMBER

INFO SAVING PARIS, BONN, UKDEL NATO, MOSCOW, C-GS IN USA.

PRESIDENT-ELECT REAGAN

- USA
- Read in full,
- MI
1. WE ARE IN REGULAR TOUCH WITH THE TRANSITION TEAMS THAT ARE BEING FORMED HERE IN WASHINGTON, BUT I THOUGHT THAT IT WOULD BE USEFUL TO MAKE CONTACT WITH SOME OF REAGAN'S CLOSEST ASSOCIATES IN CALIFORNIA. MY POLITICAL COUNSELLOR HAS ACCORDINGLY SPENT THE LAST WEEK THERE.
 2. AMONG THOSE WHOM THOMAS MET WERE WILLIAM FRENCH SMITH (REAGAN'S PERSONAL LAWYER AND CHAIRMAN OF THE PANEL WHICH DREW UP THE SHORT LIST OF CANDIDATES FOR SENIOR GOVERNMENT APPOINTMENTS IN THE NEW ADMINISTRATION), HOLMES TUTTLE (LIKE SMITH, A MEMBER OF REAGAN'S "KITCHEN CABINET" OF OLD AND TRUSTED FRIENDS, AND ALSO ON THE SELECTION PANEL) AND STU SPENCER (FORD'S CAMPAIGN DIRECTOR IN 1976, WHOSE ADDITION TO REAGAN'S INNER CIRCLE OF ADVISERS TWO MONTHS BEFORE THE ELECTION WAS WIDELY SEEN AS A TURNING POINT IN REAGAN'S CAMPAIGN).
 3. BOTH REAGAN'S OUTRIGHT PARTISANS AND MORE DETACHED OBSERVERS ALL EMPHASISED THAT HE WAS A MAN WHO SHOULD NOT BE UNDERESTIMATED. HIS DECENCY, AFFABILITY AND SIMPLE MANNER WERE GENUINE. BUT HE WAS NEITHER SOFT NOR STUPID. HE WAS A SKILLED POLITICIAN AND (AS HE HAD DEMONSTRATED IN THE CAMPAIGN) THE BEST POLITICAL COMMUNICATOR IN AMERICAN POLITICS. HE WAS CAPABLE OF ATTRACTING HIGH CLASS ADVISERS AND WAS GOOD AT LISTENING TO ADVICE. BUT ALTHOUGH A PRAGMATIC POLITICIAN, HE HAD GREAT INNER STRENGTH AND WAS NOT EASILY SHIFTED FROM A POSITION OR COURSE OF ACTION WHICH HE BELIEVED TO BE RIGHT. HE HAD WHAT SMITH CALLED AN INSTINCT FOR DECISION MAKING AND WOULD MAKE HIS OWN DECISIONS ON IMPORTANT ISSUES. FOREIGN LEADERS WOULD FIND HIM CONSISTENT AND RELIABLE.
 4. SMITH AND OTHERS SAID THAT REAGAN'S FIRST PRIORITY ON ASSUMING OFFICE WOULD BE TO TACKLE DOMESTIC ISSUES, ESPECIALLY THE ECONOMY. THIS DID NOT MEAN THAT REAGAN WOULD NOT GIVE PROPER WEIGHT TO INTERNATIONAL QUESTIONS OR THAT HE WAS NOT CONSCIOUS OF THE IMPORTANCE OF CONSULTATION WITH AMERICA'S ALLIES. ON THE CONTRARY, REAGAN AND HIS ADVISERS DID NOT WANT TO REPEAT CARTER'S MISTAKE OF LAUNCHING IMPORTANT INITIATIVES EARLY IN HIS ADMINISTRATION WITHOUT ADEQUATE CONSULTATION. BUT THE FACTS OF THE SITUATION AND THE NATURE OF REAGAN'S MANDATE MEANT THAT THE ECONOMY MUST COME FIRST. SMITH ADDED THAT FOR THE NEXT TWO OR THREE MONTHS THE COMPLEX PROCESS OF BUILDING AN ADMINISTRATION WOULD ALSO ABSORB A GREAT DEAL OF ATTENTION AND THUS DIMINISH THE SCOPE FOR DETAILED DISCUSSIONS WITH ALLIES.

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5. ON FOREIGN POLICY SPENCER SAID THAT REAGAN'S FIRST AIM WOULD BE TO DEVELOP A COHERENT GLOBAL STRATEGIC CONCEPT AND TO SEEK ALLIED AGREEMENT TO IT. REAGAN'S FOREIGN POLICY WOULD BE MUCH MORE CLEARLY DEFINED THAN CARTER'S. BUT SPENCER WARNED THAT REAGAN WOULD PUT US NATIONAL INTERESTS FIRST. REAGAN WOULD TAKE ACCOUNT OF LEGITIMATE DIFFERENCES OF PERCEPTION AND INTEREST BETWEEN THE US AND HER ALLIES, BUT HE WOULD BE PREPARED TO "PLAY HARDBALL" WITH THE ALLIES IF NECESSARY; AND THE ALLIES MIGHT FIND THAT LINKAGE APPLIED TO AMERICAN'S DEALINGS WITH THEM NO LESS THAN WITH THE SOVIET UNION. IN THIS REAGAN WOULD BE REFLECTING A GROWING FEELING IN THE COUNTRY THAT SOME OF THE ALLIES WERE NOT PULLING THEIR WEIGHT AND WERE TAKING AMERICA TOO MUCH FOR GRANTED.

6. SPENCER ADDED THAT REAGAN WOULD NOT BE DISPOSED TO TRAVEL ABROAD DURING HIS FIRST YEAR OR SO IN OFFICE UNLESS THERE WERE VERY GOOD REASONS FOR IT. BUT HE WOULD BE LIKELY TO MAKE USE OF HIGH-RANKING EMISSARIES SUCH AS HIS SECRETARY OF STATE AND PERHAPS DR KISSINGER AND EX-PRESIDENT FORD.

7. SPENCER SAID THAT IN ADDITION TO MAJOR ISSUES OF EAST-WEST RELATIONS AND THE MIDDLE EAST, ONE COULD EXPECT THE REAGAN ADMINISTRATION TO PAY MUCH MORE ATTENTION TO THE WESTERN HEMISPHERE THAN HAD ITS PREDECESSORS. THERE WOULD BE A HARD-NOSED DETERMINATION TO DEFEND US INTEREST IN LATIN AMERICA AND A MUCH TOUGHER ATTITUDE TO LEFT-WING ACTIVITIES THERE. ON THE MIDDLE EAST SPENCER SAID THAT, CAMPAIGN RHETORIC NOTWITHSTANDING, THERE WAS A CERTAIN AMOUNT OF RE-THINKING GOING ON INSIDE THE REPUBLICAN PARTY ABOUT WHERE THE BALANCE SHOULD BE STRUCK BETWEEN THE US COMMITMENT TO ISRAEL AND THE WIDER REGIONAL INTERESTS OF THE UNITED STATES.

8. THOMAS RECEIVED VARYING ASSESSMENTS OF THE EXTENT TO WHICH PRESIDENT REAGAN WOULD CONTINUE TO BE INFLUENCED BY HIS "KITCHEN CABINET", THE CLOSELY-KNIT CIRCLE OF ELDERLY, SELF-MADE AND VERY CONSERVATIVE CALIFORNIANS WHO BROUGHT REAGAN FORWARD AS A NATIONAL POLITICIAN AND HAVE BEEN HIS CLOSEST FRIENDS AND ADVISERS FOR MANY YEARS. ONE VIEW WAS THAT THEY WOULD CONTINUE TO ENJOY ACCESS TO THE PRESIDENT BUT EXERT DIMINISHING INFLUENCE, WHICH WOULD INCREASINGLY BE EXERCISED BY SENIOR WHITE HOUSE STAFF AND CABINET MINISTERS AND (AS NOW) BY MRS REAGAN. ON THE OTHER HAND IT WAS ARGUED THAT REAGAN SHARED MANY OF THE ATTITUDES AND ASSUMPTIONS OF HIS OLD FRIENDS AND WOULD CONTINUE TO TURN TO THEM FOR ADVICE. BUT IT WAS GENERALLY AGREED THAT WHEREVER THE BALANCE MIGHT BE STRUCK, WILLIAM FRENCH SMITH AND CAP WEINBERGER (BOTH OF WHOM ARE EXPECTED TO BE GIVEN SENIOR ADMINISTRATION APPOINTMENTS) WOULD REMAIN AMONGST REAGAN'S MOST IMPORTANT COUNSELLORS WHETHER IN OR OUT OF GOVERNMENT. FCO PASS SAYING PARIS, BONN, UK DEL NATO, MOSCOW. HENDERSON

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NAD

[REPEATED AS
REQUESTED]

THIS TELEGRAM
WAS NOT
ADVANCED

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USA

10 DOWNING STREET

THE PRIME MINISTER

Sunday 16 Nov.

Dear Paul.

A note to thank you
for your assessment of the Reagan
victory. It is most valuable and I
couldn't have got it anywhere else.

One day you must do the
same about the significance of Mitchell
Jones leader of the Opposition. I think
it will start with not only a
attempt to create disorder. In haste
Yours sincerely
Raymond Thatcher

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American Enterprise Institute for Public Policy Research
1150 Seventeenth Street, N.W., Washington, D.C. 20036

(202) 862-5800

RIS/11

November 10, 1980

Bonnie Ruster

Private and Confidential

The Rt. Hon. Margaret Thatcher PC MP.
10 Downing St,
London SW1.

Some good points - tho' I think it is a little old fashioned to suppose that many of Reagan's advisors regard us as likely to be able to "take them for a ride".

1 hnt 13/41

Dear Prime Minister,

Although the Embassy here will have given you a full analysis of the US elections, including the crucial committee changes which will follow the Republican capture of the Senate, I thought you might welcome the thoughts of an independent observer. As I told you at the end of August, I thought Mr. Reagan would win easily and possibly by a landslide. This was also the view taken by Mr. Nixon, though not by most media people or pundits, including the American Enterprise Institute. Why did Mr. Reagan win so heavily? Broadly speaking, he won for exactly the same reasons you won in Britain in 1979: a rejection of a poor economic performance, a fear of high inflation, a dislike of big government and bureaucracy, and a belief in old-fashioned values. In the swing states of the North East, like New York, Pennsylvania, Ohio, Illinois etc., it is likely that purely economic factors such as high unemployment combined with high inflation were determining factors. But the margins by which Mr. Reagan won in these states were not very great; and in some of them (ie New York) there were extraneous considerations, such as a fury among the Jews about Billy Carter's dealings with the Libyans and the apparently condonation of these dealings by Mr. Carter himself and his Attorney-General, Mr. Civiletti.

Where the US 1980 election differed from your victory in 1979, and where I was quite mistaken in my prognosis, was my guess, expressed in an article in the Daily Telegraph in September, that there would be a sharp division between the voting in the Sun States of the West and South -- the natural Reagan territory -- and the old industrial states of the North-East. This happened in Britain in 1979 where the traditional Labour seats in industrial Lancashire, Yorkshire, Durham, etc. -- and still more so in industrial Scotland, where there were actually swings against us -- held pretty solid, but where you made a complete sweep of the newer industrial areas of the South-East and West Midlands. This North-South division in Britain, was not, as I anticipated, completely reproduced here, with a South-West North-East division, although

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this judgment must be qualified by the observation that the swings in the North-East were very much smaller than in other parts of the country. For a Republican, Reagan did spectacularly well among Jews and Catholics, and this ought to be attributed to moral rather than economic issues -- a large number of Jews and Catholics still believe in God and the Ten Commandments, and therefore, think it wrong to murder unborn children, use four letter words and enact obscenities on stage.

The election is unquestionably an excellent result for Great Britain, first because Governor Reagan believes in the international and domestic principles for which, under your leadership, the United Kingdom stands, secondly because he has a great personal admiration for yourself, and thirdly because his desire that America should reassert her world political and military leadership in the most determined and unmistakable fashion corresponds with our national interests. He is a decent and truthful man and I have no doubt that you will be able to establish a friendly and fruitful relationship with him.

However, it is important that you should not be under any illusions about a Reagan Presidency. Mr. Reagan is not an American version of Margaret Thatcher; he is not a right-wing ideologue; he is not really a member of the radical right; though he has been associated with such notions as the Kemp-Roth Tax Reforms, these do not -- in my opinion -- go to the heart of his political emotions. At bottom, Mr. Reagan is an old-fashioned Roosevelt Democrat. He thinks America has been good to him -- as it has -- and has given him wealth and prosperity; he believes he has an obligation to share this prosperity with other Americans. In other words he suffers from exactly the same sort of guilt which is to be found among people like Harold Macmillan and R.A. Butler, and is so strongly represented in your own cabinet! So beware of Mr. Reagan.

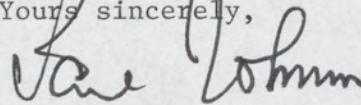
You should also remember that there is within the Republican Party a strong element of Isolationism, which will become quickly apparent now that they have recaptured the Senate. Added to this is a deep-rooted feeling that the British are a very clever, cunning people who will take the poor, innocent Americans for a ride, unless the said Americans are very vigilant and business-minded. You must be aware of this emotion too.

I have no means of knowing whom Mr. Reagan is going to appoint to the key posts which affect our relationships with them. I would like him to make Mrs. Armstrong Secretary of State, and to send Mrs. Jeane Kirkpatrick, who is one of our AEI palladians, to the UN. Both would be admirable appointments. But I have no authority for making these suggestions.

November 10, 1980

I hope you will find this letter helpful. Please do not bother to reply to it -- I know you have much more important things to do. So far as Britain is concerned, you seem to be doing all the right things, and avoiding all the old errors. Trust your own judgment and take no notice of the fainthearts and pusillanimists in your cabinet!

Yours sincerely,

A handwritten signature in cursive script that reads "Paul Johnson". The signature is written in dark ink and is positioned directly below the typed name.

Paul Johnson

PJ/pl

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FM WASHINGTON 110105Z NOV 80

TO ROUTINE F C O

TELEGRAM NUMBER 4538 OF 10 NOVEMBER

INFO SAVING EC AND NATO POSTS, MOSCOW, PEKING, TOKYO AND
CONSULATE-GENERALS IN USA.

USA
Read in full.

US ELECTIONS.

ms

1. I SHALL BE LETTING YOU HAVE INDICATIONS OF NEW POLICIES ON SPECIFIC ISSUES, WHICH MAY TAKE TIME TO EMERGE EVEN AFTER SENIOR ADMINISTRATION APPOINTMENTS HAVE BEEN ANNOUNCED. BUT A FEW GENERAL OBSERVATIONS CAN BE MADE NOW ON THE BASIS OF THE RESULTS.
2. AS REGARDS THE UNDERLYING CAUSE OF THE LANDSLIDE, A DEBATE HAS ALREADY STARTED HERE ON WHETHER IT WAS MAINLY CARTER'S FAULT OR WHETHER IT REFLECTS A DEEPER CHANGE IN THE NATIONAL MOOD. THE COMBINATION OF REAGAN'S MASSIVE VICTORY AND THE REPUBLICANS' UNEXPECTED SEIZURE OF CONTROL OF THE SENATE HAS LED SOME COMMENTATORS TO TALK OF A FUNDAMENTAL CHANGE IN THE AMERICAN POLITICAL LANDSCAPE, PERHAPS EVEN COMPARABLE WITH ROOSEVELT'S WATERSHED ELECTION IN 1932.
3. THERE HAS INDEED BEEN A MAJOR ELECTORAL UPHEAVAL. HAVING GAINED THE PRESIDENCY AS A SELF-PROCLAIMED OUTSIDER CARTER FAILED THEREAFTER TO ESTABLISH ANY SENSE OF LOYALTY TO HIMSELF EITHER IN HIS OWN PARTY OR OUTSIDE. MORE IMPORTANTLY, HE FAILED TO COMMUNICATE TO THE PEOPLE AT LARGE A CREDIBLE, LET ALONE INSPIRING, VISION OF THE DIRECTION IN WHICH HE SOUGHT TO GUIDE AMERICA. DISENCHANTMENT WITH CARTER BECAME ALMOST UNIVERSAL, EVEN AMONG TRADITIONAL DEMOCRATS. WHAT EVENTUALLY OVERCAME THE WIDESPREAD DOUBTS ABOUT REAGAN'S FITNESS FOR THE PRESIDENCY WAS HIS TALENT FOR COMMUNICATION, HIS ABILITY BOTH TO ARTICULATE POPULAR DISCONTENTS, WITHOUT BEING TOO SPECIFIC ABOUT THE REMEDIES HE WAS PROPOSING, AND TO CONVEY AN IMPRESSION OF GOOD-HUMOURED AUTHORITY, COMMON SENSE AND REASSURANCE. WATCHING HIM IN THE NATIONWIDE TV DEBATE THE MAN IN THE STREET NO LONGER SAW HIM AS THE MAD BOMBER THAT CARTER TRIED TO PAINT HIM. ONLY IN THE FINAL WEEK OF THE CAMPAIGN DID THE ELECTORATE TURN DECISIVELY AGAINST CARTER.
4. BUT THIS PERSONAL FEATURE OF THE PRESIDENTIAL DOES NOT ACCOUNT FOR THE REPUBLICANS' SUCCESSES IN THE CONGRESSIONAL ELECTIONS. IN THE SENATE THEY MADE A NET GAIN OF 12 SEATS TO TURN A 58-41 DEMOCRATIC MAJORITY INTO A 53-46 REPUBLICAN ONE (THE INDEPENDENT SENATOR BYRD OF VIRGINIA WILL CONTINUE TO CAUCUS WITH THE DEMOCARATS

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AND VOTE WITH THE REPUBLICANS). IN THE HOUSE THEY GAINED 33 SEATS, NOT ENOUGH FOR A MAJORITY BUT STILL MORE THAN EXPECTED.

5. ALTHOUGH THE SENATE ELECTIONS WERE DISASTROUS FOR THE DEMOCRATS, THE RETURNS SHOW THAT THE VOTERS' REJECTION OF DEMOCRATIC CANDIDATES WAS NOT ON THE SAME SCALE AS THEIR REPUDIATION OF PRESIDENT CARTER.

6. THE POLITICAL CENTRE OF GRAVITY IN AMERICA HAS BEEN MOVING RIGHTWARDS FOR SOME YEARS. THE PROCESS IS A COMPLEX ONE, WHICH I HOPE TO EXAMINE IN MORE DEPTH IN A FUTURE DESPATCH, BUT THERE ARE SOME FACTORS WORTH MENTIONING HERE. IN THE COUNTRY AT LARGE THE FEELING HAS BEEN GROWING (ENCOURAGED BY A DECADE OR MORE OF PERSISTENT INFLATION) THAT THE COSTS OF THE TRADITIONAL DEMOCRATIC APPROACH TO SOCIAL AND ECONOMIC PROBLEMS HAD COME TO OUTWEIGH THE BENEFITS: THE FEDERAL GOVERNMENT HAD BECOME TOO LARGE, TOO SPENDTHRIFT AND TOO INTRUSIVE: IN PARTICULAR, EXCESSIVE GOVERNMENT REGULATION WAS STIFLING ECONOMIC GROWTH. MORE RECENTLY, WITH THE POST-VIETNAM TRAUMA FADING AND IN RESPONSE TO SOVIET ADVENTURISM AND AMERICAN SETBACKS OVERSEAS, THE PUBLIC MOOD HAS TURNED IN FAVOUR OF A STRONGER DEFENCE EFFORT AND A MORE MUSCULAR FOREIGN POLICY. UP TO NOW, THE DEMOCRATS HAVE SUCCEEDED IN BENDING WITH THIS WIND BY PRESENTING THEMSELVES AS ALL THINGS TO ALL MEN, BUT AT THE COST OF WEAKENING THEIR IDENTITY AND THEIR CREDIBILITY. NEW POLITICAL IDEAS HAVE BEEN COMING FROM THE RIGHT, NOT THE LEFT. LIBERAL DEMOCRATS HAVE INCREASINGLY BEEN FORCED ON TO THE DEFENSIVE: WHILE ON THE REPUBLICAN SIDE THE PACE HAS INCREASINGLY BEEN SET BY THE RIGHT WING OF THE PARTY AND BY A COALITION OF SINGLE INTEREST AND RELIGIOUS GROUPS ADVOCATING WHAT AMOUNTS TO A POLITICAL AND CULTURAL COUNTER-REVOLUTION.

7. THIS YEAR THE REPUBLICAN PARTY SUCCEEDED IN GETTING ACROSS THE MESSAGE THAT THE DEMOCRATS HAD CONTROLLED THE CONGRESS WITH ONLY SHORT INTERRUPTIONS FOR THE BEST PART OF 50 YEARS. THEY CAPTURED AND SKILLFULLY EXPLOITED THE PUBLIC MOOD WITH THEIR SLOGAN "VOTE REPUBLICAN - FOR A CHANGE". THE RESULTS MARK THE END OF THE LONG SUPREMACY OF THE NEW DEAL LIBERAL TRADITION.

8. WHAT HAS CAUSED COMMENTATORS TO SPEAK OF A FUNDAMENTAL POLITICAL CHANGE IS NOT SIMPLY THE CHANGE-OVER TO REPUBLICAN CONTROL OF THE SENATE AFTER 26 YEARS OF DEMOCRATIC DOMINANCE, BUT ALSO THE STARK CONTRAST IN EXPERIENCE AND IDEOLOGY BETWEEN MANY OF THE PERSONALITIES INVOLVED. DEFEATED DEMOCRATIC SENATORS INCLUDE FIVE COMMITTEE CHAIRMEN AND HALF A DOZEN PROMINENT REPRESENTATIVES OF THE LIBERAL WING OF THE PARTY. THE 15 NEW REPUBLICAN SENATORS INCLUDE FIVE FORMER MEMBERS OF THE HOUSE OF REPRESENTATIVES, BUT THE MAJORITY OF THEM HAVE ONLY SERVED

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IN RELATIVELY MINOR STATE OR LOCAL OFFICES UP TO NOW AND AT LEAST FOUR OF THEM HAVE HAD NO PREVIOUS POLITICAL EXPERIENCE. AND WHILE SOME OF THESE NEW MEMBERS COME FROM THE MAINSTREAM OF THE REPUBLICAN PARTY, AT LEAST HALF OF THEM ARE IDENTIFIED WITH THE EXTREME RIGHT. SOME OF THE CHANGES IN COMMITTEE CHAIRMANSHIPS ALSO HIGHLIGHT THE IDEOLOGICAL SHIFT IN THE SENATE.

9. WITH THE DEMOCRATS RETAINING THEIR MAJORITY IN THE HOUSE OF REPRESENTATIVES, THE CONGRESS IS NOW DIVIDED AGAINST ITSELF: BUT THE ATTITUDE OF MANY DEMOCRATS SHOULD LEAD THEM TO SIDE WITH THE NEW ADMINISTRATION ON ECONOMIC AND DEFENCE ISSUES AND HENCE ENSURE FOR THE MOMENT A WORKING MAJORITY FOR MUCH OF THE REPUBLICAN LEGISLATIVE PROGRAMME.

FCO PASS SAVING EC POSTS, NATO POSTS, MOSCOW, PEKING AND TOKYO.

HENDERSON

[THIS TELEGRAM WAS NOT ADVANCED]
[REPEATED AS REQUESTED]

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TO PRIORITY F C O

TELEGRAM NUMBER 696 OF 5 NOVEMBER

INFO WASHINGTON, UKDEL NATO, BONN, PARIS

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US ELECTIONS

1. THE SOVIET MEDIA HAVE AS YET SCARCELY GONE BEYOND GIVING THE BARE NEWS OF REAGAN'S VICTORY, ALTHOUGH, WITH A NICE TOUCH, MOSCOW RADIO SAID ONE OF THE REASONS CARTER LOST WAS BECAUSE OF HIS HOSTILE COURSE TOWARDS THE SOVIET UNION.

2. I DO NOT IN FACT EXPECT EARLY SUBSTANTIVE REACTION. WITH TWO-AND-A-HALF MONTHS OF THE CARTER ADMINISTRATION STILL TO RUN, IT MAKES SENSE FOR THE RUSSIANS TO KEEP THEIR POLICY OPTIONS OPEN. THEY DO NOT NEED TO MAKE A MOVE AT THIS STAGE, AND CAN LEAVE IT TO REAGAN TO SHOW HIS HAND FIRST. THEY HAVE YET TO FORM ANY CLEAR IDEA OF WHAT A REAGAN ADMINISTRATION IN PRACTICE PORTENDS. LIKE THE REST OF US THEY WILL BE WATCHING FIRST TO SEE WHOM HE CHOOSES AS HIS ADVISERS (PARTICULARLY ON NATIONAL SECURITY) WHAT HIS FREEDOM OF MANOEUVRE IN RELATION TO CONGRESS WILL BE, AND THEN HOW POLICY BEGINS TO BE EXPRESSED. THEY CAN HOWEVER SCARCELY FAIL TO SEE REAGAN'S VICTORY AS A SHARP MOVE TO THE RIGHT, TENDING TO HARDEN THE POLARISATION OF THE INTERNATIONAL SCENE WHICH WAS ALREADY REFLECTED IN THE WESTERN REACTION TO SS20 AND TO AFGHANISTAN. IN SOME WAYS IT IS CONVENIENT FOR THEM TO HAVE AN OPPONENT WHO MAY SEEM TO FALL MORE CLOSELY THAN CARTER INTO THEIR OWN IDEOLOGICAL IMAGE OF AMERICAN POLICY AND THEY MAY HOPE, IN PROPAGANDA TERMS AT LEAST, TO BENEFIT FROM THIS. THEY WILL NO DOUBT EXPECT THAT HIS POLICIES WILL NOT MATCH IN ALL RESPECTS HIS CAMPAIGN STATEMENTS, BUT THEY MAY SEE A CHANCE THAT A CLOSER IDENTIFICATION WITH ISRAEL WILL BENEFIT THEM WITH THE ARABS; THAT THE NEW ADMINISTRATION MAY MAKE ITSELF UNPOPULAR WITH THE THIRD WORLD; AND THAT THE SOVIET UNION MAY BE ABLE TO UNDO A LITTLE OF THE DAMAGE TO ITS INTERNATIONAL STANDING WHICH RESULTED FROM AFGHANISTAN. THEY MAY ALSO CALCULATE THAT IF REAGAN DOES WHAT HE HAS SAID HE WILL DO THE STRAINS IN AMERICAN RELATIONS WITH WESTERN EUROPE MAY INCREASE AND TO THIS END THEY MAY PUT RENEWED STRESS ON EUROPEAN DETENTE AND DISARMAMENT:

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3. I WOULD NOT BE SURPRISED IF THEY START TO PREPARE FOR SOME OF THESE LINES FAIRLY SOON, BUT IT WILL BE VERY MUCH A MATTER FOR TACTICAL MANOEUVRE. WHAT REALLY MATTERS TO THEM IS THE CENTRAL STRATEGIC RELATIONSHIP AND HERE THEY ARE IN A DILEMMA. THEY CANNOT RELISH THE PROSPECT OF TRYING TO MATCH A GREATER AMERICAN DEFENCE EFFORT AND THEY MUST KNOW THAT THEY HAVE AT LEAST AS GREAT AN INTEREST AS THE AMERICANS IN REACHING AN ACCOMMODATION ON ARMS CONTROL. THE STAKES ARE HIGHER THAN IN 1978 AND 1979. BUT IT IS HARD TO SEE HOW THEY CAN HAVE ANY HOPE OF SALT II BEING REVIVED. THEY WOULD REGARD ITS DEMISE AFTER THE SIGNATURE IN VIENNA LAST YEAR AS A MAJOR BREACH OF FAITH ON THE PART OF THE US WHICH SHOULD NOT LIGHTLY BE FORGOTTEN PARTICULARLY IN VIEW OF BREZHNEV'S PERSONAL INVOLVEMENT. IT WOULD BE WHOLLY OUT OF CHARACTER FOR THEM TO RENEGOTIATE SUCH AN AGREEMENT JUST BECAUSE THE OTHER SIDE WANTED A BETTER DEAL AND IT IS DIFFICULT TO IMAGINE ANY ROOM FOR MANOEUVRE UNLESS THE US WERE WILLING TO MAKE IT LOOK LIKE A BALANCED EXCHANGE BY CATERING TO SOVIET INTERESTS WITH AN EXTENSION OF THE PROTOCOL IN SOME FORM OR ANOTHER. OTHERWISE IT WOULD BE A MATTER OF A NEW TREATY TO TAKE ACCOUNT OF NEW CIRCUMSTANCES ONCE THE SOVIET LEADERSHIP WAS SATISFIED THAT IT HAD A VALID NEGOTIATING PARTNER. MEANWHILE THE TNF/FBS TALKS IN GENEVA WILL BE SEEN BY THE RUSSIANS AS A BRIDGE: AS A MEANS OF TESTING AMERICAN INTENTIONS; AND POSSIBLY IF ALL WENT REMARKABLY WELL, AS THE STARTING POINT FOR A SALT REPLACEMENT.

4. WHILE AWAITING THE INAUGURATION AND THE POLICIES THAT WILL FOLLOW IT, THE RUSSIANS CAN BE EXPECTED TO DEPLOY THE POLICY LINE OF BREZHNEV'S ALMA ATA SPEECH "ATTEMPTS AT BURYING DETENTE AND PLUNGING THE WORLD INTO ANOTHER COLD WAR PROVED OF NO BENEFIT TO THEIR INITIATORS NONE OF THE NOW EXISTING SERIOUS PROBLEMS IN THE WORLD IS AMENABLE TO A SOLUTION FROM A POSITION OF STRENGTH, BY SABRE RATTLING. ONE SHOULD BELIEVE THAT SOONER OR LATER THE US LEADERS TOO WILL AGAIN COME TO SUCH A CONCLUSION. THE SOONER THE BETTER".

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TO IMMEDIATE F C O

TELEGRAM NUMBER 4499 OF 5 NOVEMBER 1980

INFO PARIS BONN MOSCOW PEKING UKMIS NEW YORK AND UKDEL NATO

INFO SAVING ALL NATO POSTS, ALL CG'S IN USA AND DUBLIN

U.S. PRESIDENTIAL ELECTION

1. WITH THE OUTCOME IN ONLY ONE STATE STILL UNDECIDED, RONALD REAGAN HAS WON THE PRESIDENTIAL ELECTION WITH 483 ELECTORAL COLLEGE VOTES TO CARTER'S 49. THE POPULAR VOTE GAVE REAGAN 51 PERCENT, CARTER 41 PERCENT AND ANDERSON 7 PERCENT. REAGAN'S MARGIN OF VICTORY IN THE ELECTORAL COLLEGE IS SMALLER THAN NIXON'S IN 1972, BUT GREATER THAN EISENHOWER'S IN 1956, AND COMPARABLE TO THAT OF JOHNSON OVER GOLDWATER IN 1964.
2. REAGAN, WHO BEGAN HIS CAMPAIGN FOR THE PRESIDENCY IN 1968, WILL HAVE TURNED 70 BY INAUGURATION DAY ON 20 JANUARY, AND WILL THUS BECOME THE OLDEST MAN TO BECOME PRESIDENT IN AMERICAN HISTORY. CARTER IS THE FIRST ELECTED INCUMBENT PRESIDENT TO BE DEFEATED SINCE HOOVER IN 1932.
3. IN THE FINAL DAYS BEFORE POLLING IT WAS GRADUALLY BECOMING APPARENT THAT VOTER SENTIMENT WAS MOVING TOWARDS REAGAN, ALTHOUGH THE OPINION POLLS PROVIDED LITTLE CLEAR EVIDENCE OF THIS AND NEARLY ALL CONTINUED TO PRESENT THE TWO MAIN CANDIDATES AS RUNNING NECK AND NECK. BUT THE SIZE OF HIS VICTORY HAS TAKEN EVERYONE BY SURPRISE. WE HAVE BEEN TOLD THAT BY LAST WEEKEND REAGAN'S OWN POLLSTER WAS FORECASTING A 7-10 POINT POPULAR VOTE MAJORITY: BUT THE REAGAN CAMP SENSIBLY KEPT THIS INFORMATION TO THEMSELVES. THE CARTER-REAGAN DEBATE ON 28 OCTOBER MAY HAVE BEEN A TURNING POINT. CARTER HAD SOUGHT TO COUNTER HIS OWN VULNERABILITY ON HIS RECORD BY MAKING REAGAN'S SUPPOSED BELLICOSITY IN FOREIGN AFFAIRS THE MAIN ISSUE. CARTER GOT THE BETTER OF THE ARGUMENT IN DEBATING TERMS. BUT REAGAN'S CALM, DIGNIFIED AND GOOD-HUMOURED DEMEANOUR IN THE FACE OF CARTER'S REPEATED ATTACKS DISARMED THE FEARS WHICH CARTER HAD SOUGHT TO AROUSE IN THE ELECTORATE; AND IN HIS FINAL INTERVENTION IN THE DEBATE, REAGAN TURNED THE TABLES WITH A SERIES OF RHETORICAL QUESTIONS (BEFORE YOU VOTE, ASK YOURSELF, ARE YOU BETTER OFF THAN FOUR YEARS AGO?... IS THERE MORE OR LESS UNEMPLOYMENT?... IS AMERICA AS RESPECTED THROUGHOUT THE WORLD?...) WHICH EFFECTIVELY MADE THE ELECTION A REFERENDUM ON CARTER'S RECORD. AND THE DEVELOPMENTS RELATING TO THE HOSTAGES OVER THE WEEKEND SERVED NOT TO REINFORCE CARTER'S IMAGE AS THE CALM AND PRUDENT MAN IN CHARGE, BUT TO CRYSTALLISE POPULAR RESENTMENT OVER AMERICA'S IMPOTENCE AND HUMILIATION.

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4. THE RESULT OF WHAT BOB STRAUSS, CARTER'S CAMPAIGN MANAGER, TODAY CALLED QUOTE THIS CONFLUENCE OF MANY NEGATIVE THINGS UNQUOTE WAS A CONVULSION OF DISCONTENT ON THE PART OF THE ELECTORATE WHICH IN THE LAST FEW DAYS TURNED WHAT LOOKED LIKE BEING A CLOSE RACE INTO A LANDSLIDE. THREE FACTORS APPEAR TO HAVE BEEN PRINCIPALLY RESPONSIBLE FOR THIS MASSIVE REJECTION OF THE PRESIDENT: THE STATE OF THE ECONOMY AND, ABOVE ALL, CARTER'S FAILURE TO DEAL WITH INFLATION: NATIONAL SECURITY, IE THE PERCEIVED EROSION OF AMERICA'S MILITARY STANDING VIS A VIS THE SOVIET UNION AND THE INABILITY OF THE GOVERNMENT TO EXERT AUTHORITY ABROAD: AND THE GENERAL VIEW THAT CARTER WAS INDECISIVE AND LACKING IN LEADERSHIP. THESE SENTIMENTS AFFECTED ALL SECTIONS OF THE ELECTORATE, INCLUDING THE TRADITIONAL DEMOCRATIC CONSTITUENCIES: FOR EXAMPLE REAGAN APPEARS TO HAVE WON A MAJORITY OF THE BLUE COLLAR VOTE, INCLUDING OVER 40 PERCENT OF TRADE UNIONISTS. ONLY THE BLACKS STAYED WITH CARTER, BUT LESS OVERWHELMINGLY THAN IN 1976. AS A CONSEQUENCE, REAGAN NOT ONLY SWEEPED THE WEST AND MIDWEST, AS EXPECTED, BUT ALSO CAPTURED ALL OF CARTER'S SOUTHERN BASE EXCEPT GEORGIA, ALL THE GREAT LAKES STATES EXCEPT MINNESOTA (VICE PRESIDENT MONDALE'S HOME STATE), AND EVEN NEW YORK AND, BY THE NARROWEST OF MARGINS, MASSACHUSETTS. IN ALL, CARTER HELD ONLY 6 STATES AND THE DISTRICT OF COLUMBIA.

5. WHAT WE HAVE SEEN IS THE REPUDIATION OF CARTER BY THE DEMOCRATIC VOTER. IN A NUMBER OF STATES EASILY CARRIED BY REAGAN, DEMOCRATIC CANDIDATES FOR THE SENATE AND GOVERNOR WERE ELECTED BY HANDSOME MARGINS. BUT DESPITE THIS EVIDENCE OF TICKET-SPLITTING BY DEMOCRATIC VOTERS, THE SCALE OF REAGAN'S VICTORY ENABLED THE REPUBLICANS TO MAKE GREATER THAN EXPECTED GAINS IN THE CONGRESSIONAL ELECTIONS. MOST IMPORTANTLY, THEY HAVE REGAINED CONTROL OF THE SENATE FOR THE FIRST TIME SINCE 1954. AS EXPECTED, THE DEFEATED DEMOCRATS INCLUDED SENATORS CHURCH (CHAIRMAN OF THE FOREIGN RELATIONS COMMITTEE) AND MCGOVERN. THE POLITICAL HUE OF THE NEW SENATE WILL BE WELL TO THE RIGHT. THE FORTHCOMING LAME-DUCK SESSION OF THE 96TH CONGRESS WILL TAKE PLACE WITH THE PRE-ELECTION MEMBERSHIP STILL IN THEIR SEATS. BUT WHEN THE 97TH CONGRESS CONVENES ON 3 JANUARY, ALL SENATE COMMITTEES WILL HAVE REPUBLICAN CHAIRMEN AND REPUBLICAN MAJORITIES. THIS WILL BE AN IMPORTANT ASSET FOR THE REAGAN ADMINISTRATION. ONE OF OUR REPUBLICAN SENATE CONTACTS HAS COMMENTED THAT FOR THE FIRST TIME SINCE THE VIETNAM WAR THE MAJORITY IN THE SENATE WILL BE PREDISPOSED TO FOLLOW AND SUPPORT THE PRESIDENT'S LEAD ON FOREIGN POLICY.

6. THE DEMOCRATS HAVE HOWEVER RETAINED CONTROL OF THE HOUSE OF REPRESENTATIVES, BUT WITH A REDUCED MAJORITY. THE REPUBLICANS MADE A NET GAIN OF OVER 30 HOUSE SEATS, COMPARED WITH THE 59 THEY NEEDED FOR A MAJORITY, AND UNSEATED SOME SENIOR DEMOCRATIC CONGRESSMEN (INCLUDING JOHN BRADEMAS OF INDIANA, THE MAJORITY WHIP).

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THE EFFECT IS EXPECTED TO BE TO INDUCE A MORE CONSERVATIVE MOOD IN THE HOUSE AS THE DEMOCRATS BEND TO THE PREVAILING WIND, AT ANY RATE FOR THE TIME BEING.

7. SEE MY 2 LFT'S.

FCO PSE PASS SAVING TO DUBLIN ANKARA ATHENS BRUSSELS COPENHAGEN
LISBON LUXEMBOURG OSLO OTTAWA ROME REYKJAVIK THE HAGUE

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FROM WASHINGTON 060137Z NOV 80

TO IMMEDIATE F C O

TELEGRAM NUMBER 4501 OF 5 NOVEMBER

INFO PARIS, BONN, MOSCOW, PEKING, UKMIS NEW YORK, CAIRO, TEL AVIV,
UKDEL NATO, MADRID.

INFO SAVING ALL NATO POSTS, DUBLIN, ALL CG'S IN USA.

MY 2 I P T S (NOT TO ALL):

TRANSITIONAL ARRANGEMENTS: FOREIGN POLICY

1. ~~THERE ARE MANY URGENT FOREIGN POLICY ISSUES THAT CANNOT BE LEFT ON ONE SIDE UNTIL 20 JANUARY, AND ACCORDING TO WARREN CHRISTOPHER WITH WHOM I HAVE DISCUSSED THE TRANSITION PROBLEM, THE PRESIDENT IS EAGER TO BE AS BUSINESSLIKE AS POSSIBLE UNTIL HE ACTUALLY HANDS OVER.~~
2. MUSKIE IS INTENDING TO PROCEED WITH HIS PLANNED TRIP TO SOUTH AMERICA IF THE GOVERNMENTS THERE WANT HIM TO DO SO, THOUGH THERE WILL HAVE TO BE A CHANGE IN THE ORIGINAL DATES.
3. I GATHER THAT MUSKIE WILL BE ATTENDING SUCH MEETINGS OF FOREIGN MINISTERS AS ARE SCHEDULED AND IT IS NOT HIS INTENTION AT PRESENT TO TAKE REPUBLICAN PARTY OBSERVERS WITH HIM. AS FOR MEETINGS NOT (NOT) AT PRESENT SCHEDULED (I HAVE ASKED CHRISTOPHER ABOUT HIS IDEA REPORTED IN MY TELNO 4451, NOT TO ALL) THE ANSWER IS THAT ~~IF THE~~ SUBJECT IS REALLY URGENT, MUSKIE WILL OF COURSE BE READY TO ATTEND, BUT THAT IN THE CIRCUMSTANCES THE VALUE OF SUCH A MEETING, SO FAR AS U.S. PARTICIPATION IS CONCERNED, WILL BE LESS THAN HITHERTO.
4. CHRISTOPHER SAID THAT HE DID NOT KNOW WHAT WOULD HAPPEN ABOUT THE SUGGESTED TRIPARTITE HEADS OF GOVERNMENT MEETING ON CAMP DAVID. THIS WAS ONE OF THE SUBJECTS CARTER WOULD BE DISCUSSING WITH BEGIN ON 13 NOVEMBER, WHEN HE COMES TO THE USA ON A PRIVATE ENGAGEMENT. (SCHMIDT, INCIDENTALLY, IS ALSO DUE TO SEE CARTER, IN THE CONTEXT OF A PRIVATE VISIT TO THE USA, ON 20 NOVEMBER: BOTH HE AND BEGIN WILL PROBABLY NOW SEEK CALLS ON REAGAN AS WELL).
5. AS REGARDS CSCE, I GATHER THAT THE STATE DEPARTMENT'S INTENTION IS TO CARRY ON AS USUAL AND BELL IS EXPECTED TO GO TO MADRID. BUT THE STATE DEPARTMENT HAVE TOLD THE FRENCH THAT THEY ARE HAVING TO HOLD A DECISION ON CDE FOR THE MOMENT. THIS IS SOMETHING THAT COULD HAVE IMPLICATIONS FOR THE FUTURE AND THEY WOULD NOT WISH TO GO AHEAD WITHOUT REFERRING THE SUBJECT TO THE REPUBLICANS WHEN THE TRANSITION ARRANGEMENTS ARE SET UP.

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6. I EXPLAINED TO CHRISTOPHER THAT THE LANDSLIDE NATURE OF THE REPUBLICANS' VICTORY COULD ENCOURAGE EXPECTATIONS ABROAD OF WIDE-SPREAD CHANGES IN FOREIGN POLICY. FOR THIS REASON IT WAS EXTREMELY IMPORTANT FOR US TO BE KEPT ABREAST OF WHAT WAS HAPPENING IN THE DISCUSSIONS DURING THE TRANSITION PERIOD. CHRISTOPHER SAID THAT HE THOUGHT THIS WAS ENTIRELY UNDERSTANDABLE AND HE WAS SURE THAT WE WOULD BE ABLE TO WORK OUT A SATISFACTORY ARRANGEMENT.

F C O PASS SAVING. ANKARA, ATHENS, BRUSSELS, COPENHAGEN, LISBON, LUXEMBOURG, OSLO, OTTAWA, ROME, REYKJAVIK, THE HAGUE, DUBLIN.

HENDERSON

REPEATED AS REQUESTED

FCO|WH

NAD

GRS 480

CONFIDENTIAL

FROM WASHINGTON 060136Z NOV 80

TO IMMEDIATE F C O

TELEGRAM NUMBER 4500 OF 5 NOVEMBER

INFO PARIS, BONN, MOSCOW, PEKING, UKMIS NEW YORK, UKDEL NATO.

INFO SAVING ALL NATO POSTS, DUBLIN, ALL CC'S IN U S A.

M I P T: U.S. PRESIDENTIAL ELECTION: THE TRANSITION

1. PRESIDENT CARTER REMAINS IN OFFICE UNTIL 20 JANUARY AND HIS CONSTITUTIONAL POWERS AS PRESIDENT ARE INTACT. I AM INFORMED THAT HE IS DETERMINED TO GOVERN AS PRESIDENT AND THAT HE HAS NO INTENTION OF ENGAGING REAGAN IN NEGOTIATION REGARDING DECISIONS THAT ARE HIS TO TAKE. NEVERTHELESS HE WILL NOT BE TAKING MAJOR INITIATIVES THAT WILL COMMIT HIS SUCCESSOR AND HIS AIM (AS HE MADE CLEAR IN HIS CONCESSION SPEECH LAST NIGHT) IS TO HELP REAGAN AND HIS TEAM TO TAKE OVER THE REINS OF GOVERNMENT AS SMOOTHLY AS POSSIBLE. HE HIMSELF WAS GREATLY HELPED IN THIS RESPECT BY FORD.

2. SO FAR AS THE CONGRESS IS CONCERNED, THE TWO NEW HOUSES WILL NOT BE CONVENED UNTIL 3 JANUARY. THE LAME-DUCK SESSION WHICH STARTS ON 12 NOVEMBER IS LIKELY TO BE VERY SHORT AND RESTRICTED TO ESSENTIAL BUDGETARY BUSINESS (SEE SEPARATE TELEGRAM). THERE IS NO QUESTION OF SALT II BEING INTRODUCED INTO THE LAME-DUCK SESSION, AND OTHER ITEMS OF PENDING LEGISLATION MAY GO BY THE BOARD.

3. FOR SOME TIME GOVERNOR REAGAN HAS HAD A NUMBER OF GROUPS WORKING ON POLICY ISSUES, AS WELL AS A TEAM CONSIDERING FUTURE APPOINTMENTS. A TRANSITION OFFICE WILL OPEN IN WASHINGTON NEXT MONDAY, HEADED BY REAGAN'S CHIEF OF STAFF, ED MEESE. SUBORDINATE TO THIS TEAM THERE WILL BE TRANSITION STAFFS IN THE MAIN GOVERNMENT DEPARTMENTS. THESE WILL BE BRIEFED BY THE DEPARTMENTS AND CONSULTED ON MATTERS THAT MIGHT HAVE LONG-TERM IMPLICATIONS. BUT THE TRANSITION STAFFS WILL NOT AMOUNT TO A SHADOW ADMINISTRATION: NOR IS THERE ANY QUESTION OF ANYTHING IN THE NATURE OF A BIPARTISAN GOVERNMENT OR POLICY IN THE TRANSITION PERIOD. REAGAN AND HIS TEAM INCIDENTALLY WOULD NOT WISH THERE TO BE. THEY WILL BE MORE THAN FULLY OCCUPIED IN PUTTING TOGETHER THE NEW ADMINISTRATION AND WORKING OUT THEIR FUTURE POLICIES.

4. SO FAR AS FOREIGN GOVERNMENTS ARE CONCERNED, THEY WILL NOT DEAL WITH THE TRANSITION STAFFS BUT WITH DEPARTMENTS AS HITHERTO UNTIL 20 JANUARY.

CONFIDENTIAL

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CONFIDENTIAL

5. SOME LOW LEVEL APPOINTMENTS MAY WELL BE ANNOUNCED QUITE SOON BUT MEESE HAS SAID THAT REAGAN WILL NOT MAKE CABINET APPOINTMENTS UNTIL THE END OF NOVEMBER OR BEGINNING OF DECEMBER. THESE APPOINTMENTS WILL THEN HAVE TO BE APPROVED BY THE NEW SENATE.

6. PLEASE SEE M I F T.

F C O PASS SAVING ANKARA, ATHENS, BRUSSELS, COPENHAGEN, LISBON, LUXEMBOURG, OSLO, OTTAWA, ROME, REYKJAVIK, THE HAGUE, DUBLIN.

HENDERSON

REPEATED AS REQUESTED

FCO|WH
NAD

HS

USA

4 November 1980

US Presidential Election: Message of Congratulation

The Prime Minister has approved the texts enclosed with your letter to me of 3 November on this subject.

MICHAEL ALEXANDER

Paul Lever, Esq.,
Foreign and Commonwealth Office.

KAB

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Prime Minister

①

Yes not

Agree texts?

DRG
Duty
Clark



Foreign and Commonwealth Office

London SW1A 2AH

King

3 November 1980

Dear Michael,

US Presidential Election:
Message of Congratulation

Our Ambassador at Washington has telegraphed to say that it would be helpful to have authority to deliver an appropriate message of congratulation to the winner of the American Presidential Election as soon as the result of the election is clear.

We believe that it will be useful for establishing good relations with a new President or continuing good relations with President Carter for a message to be delivered very quickly once the result is known. I enclose suggested draft texts of messages to President Carter and Governor Reagan. If you agree, we will instruct Sir Nicholas Henderson to deliver one or other of them at the right time.

If President Carter loses the election, the Prime Minister may wish to send a message to him. If so, the appropriate time would be at the end of his term, on 20 January; we would send you a draft.

Yours etc

Paul

(P Lever)
Private Secretary

M O'D B Alexander Esq
No 10 Downing St

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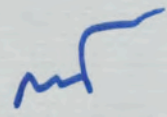


1. Suggested Message to President Carter:

I and my colleagues in the British Government send you our warmest congratulations on your victory in the election: we have all followed your hard-fought campaign with the greatest interest. I know you share my determination to strengthen allied co-operation as well as the close bond of freindship between Britain and the United States. It is good to know that we can continue to work together in your second term and I hope we shall have the pleasure of welcoming you in Britain in the near future.

2. Suggest Message to Governor Reagan:

May I send you may warmest congratulations, and those of my colleagues in the British Government, on your victory in the presidential election. Remembering our meeting in London in 1978, I look forward to working closely with you and with your colleagues in your new administration. You will be assuming the Presidency at a time when the close friendship between our two countries can, I believe, play a crucial role in strengthening co-operation within the alliance. I look forward to an early opportunity of discussing with you the urgent problems which we all face. I hope you already know that you will receive the warmest welcome from both the Government and the people of this country when you can find an opportunity to visit Britain, which I hope will be soon.



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DESKBY 030900Z

FM WASHINGTON 022356Z NOV 80
TO IMMEDIATE F C O
TEL NO 4460 OF 02 NOVEMBER 1980

M.I.P.T.

U S ELECTIONS: THE CONGRESS.

1. IN ADDITION TO THE PRESIDENCY, THE ENTIRE HOUSE OF REPRESENTATIVES (435 SEATS), ONE THIRD OF THE SENATE (34 SEATS) AND 13 GOVERNORSHIPS ARE ALL UP FOR ELECTION ON 4 NOVEMBER. IN ADDITION, THERE WILL BE ELECTIONS TO STATE LEGISLATURES THROUGHOUT THE COUNTRY. (DETAILS IN THOMAS' LETTER TO BERTHOUD (NAD) OF 23 SEPTEMBER).

2. THE REPUBLICANS HAD HIGH HOPES IN MID-SUMMER OF WINNING THE 9 SEATS NEEDED TO SECURE A MAJORITY IN THE SENATE. THEY HAD NO REAL HOPE OF WINNING THE 59 SEATS NEEDED TO GIVE THEM A MAJORITY IN THE HOUSE OF REPRESENTATIVES BUT ABOUT 30 DEMOCRATIC SEATS DID LOOK VERY VULNERABLE.

3. SINCE MID-SUMMER, THE DEMOCRATS HAVE CLOSED THE GAP AND NOW LOOK LIKE RETAINING THEIR MAJORITY IN THE SENATE, THOUGH WITH A POSSIBLE NET LOSS OF HALF A DOZEN SEATS. IN THE HOUSE, THE REPUBLICANS CAN LOOK FORWARD TO A NET GAIN OF PERHAPS 10 TO 20 SEATS.

4. THE REPUBLICANS HAVE CONCENTRATED THEIR FIRE ON ABOUT SIX DEMOCRATIC SENATORS (ALL SUPPORTERS OF THE SALT II TREATY):
BIRCH BAYH OF INDIANA (CHAIRMAN OF THE SENATE SELECT COMMITTEE ON INTELLIGENCE AND OF THE RECENT SENATE INQUIRY INTO THE BILLYGATE AFFAIR):
FRANK CHURCH OF IDAHO (CHAIRMAN OF THE SENATE FOREIGN RELATIONS COMMITTEE):
JOHN CULVER OF IOWA (THE MOST LIBERAL MEMBER OF THE ARMED SERVICES COMMITTEE):
THOMAS EAGLETON OF MISSOURI (BRIEFLY MCGOVERN'S RUNNING MATE IN 1972):
GARY HART OF COLORADO (A POSSIBLE CONTENDER FOR THE DEMOCRATIC PRESIDENTIAL NOMINATION IN 1984):
GEORGE MCGOVERN OF SOUTH DAKOTA (THE DEMOCRATIC PRESIDENTIAL NOMINEE IN 1972).

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5. OF THESE, CHURCH AND MCGOVERN MAY BE THE MOST VULNERABLE. CHURCH HAS BEEN A LIGHT-WEIGHT CHAIRMAN OF THE SENATE FOREIGN RELATIONS COMMITTEE, BUT IF HE LOSES HIS SEAT, HIS LIKELY SUCCESSOR (CLAIBORNE PELL OF RHODE ISLAND) IS UNLIKELY TO BE A MARKED IMPROVEMENT. AND THE ALMOST CERTAIN DISAPPEARANCE OF SENATOR JACOB JAVITS OF NEW YORK, THE SENIOR REPUBLICAN ON THE FOREIGN RELATIONS COMMITTEE, WILL MEAN THE LOSS TO THAT COMMITTEE OF A STEADYING INFLUENCE ON SUCH MAJOR ISSUES AS SALT. JAVITS LOST THE REPUBLICAN PRIMARY AND IS NOW RUNNING ON THE LIBERAL TICKET. HE HAS NO CHANCE OF CARRYING NEW YORK, WHICH MAY WELL GO TO THE DEMOCRATIC CHALLENGER, CONGRESSWOMAN ELIZABETH HOLTZMAN.

6. IN THE HOUSE OF REPRESENTATIVES, A NUMBER OF DEMOCRATIC LEADERS ARE VULNERABLE, INCLUDING MAJORITY WHIP JOHN BRADENAS OF INDIANA, WHO LOOKS SET TO LOSE. JIM WRIGHT OF TEXAS (MAJORITY LEADER, AL ULLMAN OF OREGON (CHAIRMAN OF THE WAYS AND MEANS COMMITTEE), MO UDALL OF ARIZONA (CHAIRMAN OF THE INTERIOR COMMITTEE) AND TOM FOLEY OF WASHINGTON (CHAIRMAN OF THE AGRICULTURE COMMITTEE AND OF THE HOUSE DEMOCRATIC CAUCUS AND A LEADING IRISH AMERICAN WHO HAS BEEN CONSISTENTLY HELPFUL TO US) ALL FACE STIFF CHALLENGES. BUT WRIGHT, ULLMAN AND FOLEY APPEAR TO HAVE STRENGTHENED THEIR POSITION IN RECENT WEEKS.

7. ONLY 13 GOVERNORSHIPS ARE AT STAKE THIS YEAR. ALTHOUGH 10 OF THESE ARE CURRENTLY HELD BY DEMOCRATS, REPUBLICANS ARE LIKELY TO MAKE GAINS IN ONLY ONE OR TWO STATES TO ADD TO THE 19 GOVERNORSHIPS WHICH THEY HOLD NATIONWIDE.

8. ELECTIONS TO STATE LEGISLATURES WILL BE MORE SIGNIFICANT THAN USUAL THIS YEAR BECAUSE THE NEW LEGISLATURES WILL CONTROL THE DECENNIAL REAPPORTIONMENT OF DISTRICT (IE CONSTITUENCY) BOUNDARIES AT BOTH STATE AND CONGRESSIONAL LEVEL NEXT YEAR. THE DEMOCRATS CONTROL NEARLY ALL THE STATE LEGISLATURES IN THE 10 MOST IMPORTANT STATES AND THE PROSPECT IS FOR ONLY SMALL REPUBLICAN GAINS.

HENDERSON

FCO/WHITEHALL DISTRIBUTION

NAD

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DESKBY 030800Z

FM WASHINGTON 022355Z NOV 80
 TO IMMEDIATE F C O
 TEL NO 4459 OF 02 NOVEMBER 1980
 INFO ROUTINE NATO POSTS, MOSCOW, TOKYO, UKREP BRUSSELS,
 DUBLIN.
 SAVING INFO ALL CG'S IN U.S.A.

U S PRESIDENTIAL ELECTION.

1. A YEAR AGO THE CONVENTIONAL WISDOM WAS THAT CARTER HAD LITTLE CHANCE OF HOLDING ON TO THE DEMOCRATIC NOMINATION: AND THAT REAGAN, WHILST CERTAIN OF THE REPUBLICAN NOMINATION, HAD NO HOPE OF WINNING THE ELECTION. NOW ALL THE PUBLIC OPINION POLLS SUGGEST THAT THE POPULAR VOTE WILL BE VERY CLOSE NATIONALLY. THE LATEST GALLUP POLL PUTS CARTER AHEAD BY 44-41 PER CENT AMONGST REGISTERED VOTERS BUT REAGAN AHEAD BY 44-43 PERCENT AMONGST THOSE MOST LIKELY TO VOTE. MOST OTHER POLLS GIVE SIMILARLY INCONCLUSIVE RESULTS.
2. ACCORDING TO THE POLLS ANDERSON HAS CONTINUED TO FADE AND HIS FINAL SHARE OF THE VOTE COULD SINK TO AROUND 5 PERCENT NATIONALLY: BUT HE COULD STILL INFLUENCE THE OUTCOME IN ONE OR TWO IMPORTANT STATES.
3. OF COURSE THE ELECTION WILL BE DECIDED NOT BY THE POPULAR VOTE NATIONWIDE BUT BY THE OUTCOME OF 51 SEPARATE ELECTIONS IN THE INDIVIDUAL STATES AND THE DISTRICT OF COLUMBIA. THE PRESIDENT IS FORMALLY ELECTED BY THE ELECTORAL COLLEGE, IN WHICH EACH STATE HAS THE SAME NUMBER OF ELECTORS AS IT HAS MEMBERS OF CONGRESS (PLUS 3 ELECTORS FOR THE DISTRICT OF COLUMBIA), WHO ARE PLEDGED TO VOTE FOR THE WINNING CANDIDATE IN THEIR STATE ON A WINNER TAKE ALL BASIS. A WINNING MAJORITY IN THE ELECTORAL COLLEGE IS 270.
4. IN TERMS OF ELECTORAL COLLEGE VOTES THE ARITHMETIC FAVOURS REAGAN. REAGAN'S BASE WEST OF THE MISSISSIPPI (INCLUDING CALIFORNIA WITH 45 ELECTORAL VOTES) LOOKS VERY SOLID. BY CONTRAST, THE COALITION OF BLACK AND RURAL WHITE SUPPORT WITH WHICH CARTER SWEEPED THE SOUTH IN 1976 HAS BEEN ERODED THIS YEAR: FLORIDA (17 ELECTORAL VOTES) AND MISSISSIPPI (7) SEEM LIKELY TO GO TO REAGAN AND SO TOO COULD TEXAS (26) AND LOUISIANA (10) THIS MEANS THAT FOR CARTER TO SURVIVE HE MUST NOT ONLY HANG ON TO STRONGLY DEMOCRATIC EASTERN STATES SUCH AS NEW YORK (41) AND MASSACHUSETTS

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(14) (WHICH HE SHOULD DO, DESPITE RECENT POLLS INDICATING MUCH CLOSER RACES THAN HAD EARLIER SEEMED LIKELY), BUT HE MUST ALSO CARRY ALL OR NEARLY ALL THE LARGE INDUSTRIAL MARGINAL STATES OF THE EAST AND NORTHERN MIDWEST: PENNSYLVANIA (27) OHIO (25), MICHIGAN (21), WISCONSIN (11) AND ILLINOIS (26). THESE STATES COULD GO EITHER WAY.

5. IN THIS SITUATION, TURNOUT IS LIKELY TO BE CRUCIAL. THE REPUBLICANS ARE CONFIDENT THAT THE MUCH GREATER RESOURCES OF MONEY AND MANPOWER WHICH THEY CAN COMMAND FOR GETTING OUT THE VOTE WILL OFFSET THE DEMOCRATS' INBUILT ADVANTAGE IN NUMBERS OF REGISTERED VOTERS, ESPECIALLY IF THE TURNOUT IS LOW. THE DEMOCRATS HAVE THE PROBLEM OF PERSUADING THEIR OFTEN APATHETIC ELECTORATE TO GO TO THE POLLS. FOR EXAMPLE, LABOUR LEADERS ARE NOW WORKING HARD TO TURN OUT A STRONG ANTI-REAGAN TRADE UNION VOTE, BUT MANY OF THEIR RANK AND FILE APPEAR UNRESPONSIVE. VERY FEW BLACKS WILL VOTE FOR REAGAN; BUT A RECENT SURVEY INDICATED THAT ALMOST HALF OF ALL BLACK VOTERS HAD NO INTENTION OF VOTING AT ALL. THE EFFORTS OF FUNDAMENTALIST EVANGELICAL RELIGIOUS LEADERS TO MOBILISE THEIR CONGREGATIONS TO VOTE FOR REAGAN PRESENT A NEW AND UNQUANTIFIABLE THREAT TO CARTER'S WHITE RURAL CONSTITUENCY, PARTICULARLY IN THE SOUTH.

6. IN A NUMBER OF STATES UNPREDICTABLE LOCAL OR SECTORAL CONSIDERATIONS MAY TURN OUT TO BE DECISIVE. FOR EXAMPLE, DISENCHANTMENT WITH CARTER AMONG THE PREDOMINANTLY DEMOCRATIC JEWISH COMMUNITY MAY AFFECT THE OUTCOME IN FLORIDA, WHERE THE ADMINISTRATION'S HANDLING OF THE RECENT FLOOD OF CUBAN REFUGEES IS ALSO A CONTENTIOUS ISSUE; AND IN ILLINOIS THE OUTLOOK IS COMPLICATED BY A BITTER INTERNECINE STRUGGLE IN THE COOK COUNTY (CHICAGO) DEMOCRATIC PARTY.

7. I CANNOT SAY AT THIS STAGE WHAT THE IMPACT ON VOTING IS GOING TO BE OF THE LATEST DEVELOPMENTS IN THE HOSTAGE SAGA.

HENDERSON

FCO WHITEHALL
NAD

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Mr. Paul

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<i>TOP COPY</i>		

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 DESKBY 311700Z
 FM WASHINGTON 311600Z OCT 80
 TO IMMEDIATE FCO
 TELEGRAM NO 4438 OF 31 OCTOBER

FOR NAD

US PRESIDENTIAL ELECTIONS: MESSAGES OF CONGRATULATION

1. THE PRIME MINISTER MAY WISH TO SEND A MESSAGE OF CONGRATULATION TO WHOEVER WINS NEXT TUESDAY'S PRESIDENTIAL ELECTION. I SUGGEST THE FOLLOWING TEXTS. IF THEY CAN BE CLEARED IN ADVANCE, IT WOULD BE HELPFUL TO HAVE AUTHORITY TO DELIVER THE APPROPRIATE MESSAGE SOON AFTER THE RESULT OF THE ELECTION IS CLEAR.

2. FOLLOWING ARE PROPOSED TEXTS:
 (A) MESSAGE TO PRESIDENT CARTER:

QUOTE I AND MY COLLEAGUES IN THE BRITISH GOVERNMENT SEND YOU OUR WARMEST CONGRATULATIONS ON YOUR VICTORY IN THE ELECTION : WE HAVE ALL FOLLOWED YOUR HARD-FOUGHT CAMPAIGN WITH THE GREATEST INTEREST. I KNOW YOU SHARE MY DETERMINATION TO, STRENGTHEN ALLIED COOPERATION AS WELL AS THE CLOSE BOND OF FRIENDSHIP BETWEEN BRITAIN AND THE UNITED STATES. IT IS GOOD TO KNOW THAT WE CAN CONTINUE TO WORK TOGETHER IN YOUR SECOND TERM AND I HOPE WE SHALL HAVE THE PLEASURE OF WELCOMING YOU IN BRITAIN IN THE NEAR FUTURE UNQUOTE.

(B) FOR GOVERNOR REAGAN:

QUOTE MAY I SEND YOU MY WARMEST CONGRATULATIONS, AND THOSE OF MY COLLEAGUES IN THE BRITISH GOVERNMENT, ON YOUR VICTORY IN THE PRESIDENTIAL ELECTION. REMEMBERING OUR MEETING IN LONDON IN 1978, I LOOK FORWARD TO WORKING CLOSELY WITH YOU AND WITH YOUR COLLEAGUES IN YOUR NEW ADMINISTRATION. YOU WILL BE ASSUMING THE PRESIDENCY AT A TIME WHEN THE CLOSE FRIENDSHIP BETWEEN OUR TWO COUNTRIES CAN, I BELIEVE, PLAY A CRUCIAL ROLE IN STRENGTHENING COOPERATION WITHIN THE ALLIANCE. I LOOK FORWARD TO AN EARLY OPPORTUNITY OF DISCUSSING WITH YOU THE URGENT PROBLEMS WHICH WE ALL FACE. I HOPE YOU ALREADY KNOW THAT YOU WILL RECEIVE THE WARMEST WELCOME FROM BOTH THE GOVERNMENT AND THE PEOPLE OF THIS COUNTRY WHEN YOU CAN FIND AN OPPORTUNITY TO VISIT BRITAIN WHICH I HOPE WILL BE SOON UNQUOTE.

3. IF PRESIDENT CARTER LOSES THE ELECTION THE PRIME MINISTER MAY WISH TO SEND A MESSAGE TO HIM. THE APPROPRIATE TIME WOULD BE AT THE END OF HIS TERM, ON 20 JANUARY.

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 PS/PUS

MR DAY
 MR HARDING

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USA

PRIVY COUNCIL OFFICE
WHITEHALL, LONDON SW1A 2AT

3 October 1980

TO ALL MINISTERS

US PRESIDENTIAL ELECTION

During the course of the next few weeks Ministers may be approached by radio and television producers to take part in programmes discussing the United States Presidential Election result.

The Prime Minister has agreed that no Minister should take part in such a programme in the days preceding the election, on the night of the election or immediately after it. The first official comment on the result will be a message of congratulations from the Government.

I should be glad if you would bear this in mind when making your media arrangements in the coming weeks.

ANGUS MAUDE

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FM WASHINGTON 232358Z SEP 80
 TO PRIORITY FCO
 TELEGRAM NUMBER 4087 OF 23 SEPTEMBER
 INFO UKMIS NEW YORK (FOR S OF S'S PARTY)
 INFO SAVING ALL CGS USA.

Prime Minister
You might like to
glance at this
assessment of the
television debate
 MAF

MY TELNO 3979: US PRESIDENTIAL CAMPAIGN

1. THE FIRST (AND QUITE POSSIBLY THE ONLY) TELEVISED QUOTE PRESIDENTIAL UNQUOTE DEBATE OF THE CURRENT CAMPAIGN TOOK PLACE IN BALTIMORE ON 21 SEPTEMBER. PRESIDENT CARTER HAVING MAINTAINED HIS REFUSAL TO APPEAR WITH REAGAN AND ANDERSON TOGETHER BEFORE HE HAD DEBATED REAGAN ALONE, THE DEBATE WENT AHEAD WITHOUT HIM. IT WAS CARRIED LIVE BY TWO OF THE THREE MAIN TELEVISION NETWORKS AND WAS WATCHED BY AN ESTIMATED 50 MILLION VIEWERS.
2. THERE WAS NO REAL DEBATE AS SUCH. REAGAN AND ANDERSON EACH ANSWERED IN TURN A SERIES OF QUESTIONS FROM A PANEL OF JOURNALISTS. THE QUESTIONS COVERED INFLATION, ENERGY, DEFENCE, PROBLEMS OF INNER CITIES, AND THE ROLE OF CHURCH AND STATE (INCLUDING THE QUESTION OF A CONSTITUTIONAL AMENDMENT TO BAN ABORTION WHICH IS FAVOURED BY REAGAN AND OPPOSED BY ANDERSON). NEITHER PARTICIPANT SAID ANYTHING NEW AND THE ABSENCE OF FOLLOW-UP QUESTIONS ENABLED EACH OF THEM TO ADDRESS OR IGNORE THE ORIGINAL QUESTION AS HE CHOSE. NEITHER SCORED ANY FORENSIC KNOCK-OUT BLOWS OR MADE ANY GAFFES. EACH THEREFORE WENT AWAY SATISFIED.
3. THE PRESS HAVE CONCLUDED THAT UNINTERRUPTED ACCESS TO A NATIONAL TELEVISION AUDIENCE CAN ONLY HAVE WORKED TO THE BENEFIT OF ANDERSON AND REAGAN AND THAT, BY THE SAME TOKEN, THE PRESIDENT MISSED OUT BY NOT BEING THERE. ANDERSON, AS THE LEAST KNOWN, HAD THE MOST TO GAIN. DESPITE THE SOMETIMES HECTORING TONE OF HIS DELIVERY, HE WAS THE STRONGER ON FACT AND ARGUMENT AND SUCCEEDED IN ESTABLISHING THAT HE DIFFERED FROM REAGAN ON MOST ISSUES. REAGAN, WHO WAS AMIABLY PATRONISING TOWARDS ANDERSON, CAME ACROSS AS THE MORE RELAXED PERFORMER AND FREQUENTLY FELL BACK ON HIS FAMILIAR ONE-LINERS AND ON A WELL WORN EMOTIONAL PERORATION (QUOTE OUR DESTINY CAN BUILD A LAND HERE THAT WILL BE FOR ALL MANKIND A SHINING CITY ON A HILL UNQUOTE ETC).
4. THE LEAGUE OF WOMEN VOTERS PLAN AT LEAST ONE MORE PRESIDENTIAL DEBATE BEFORE 4 NOVEMBER BUT IT IS AT PRESENT DOUBTFUL WHETHER REAGAN WILL BE PREPARED TO DEBATE ANDERSON ALONE A SECOND TIME AND EQUALLY DOUBTFUL WHETHER HE WILL AGREE TO DEBATE THE PRESIDENT ALONE WITHOUT ANDERSON. THE PRESIDENT HIMSELF ATTEMPTED TO MINIMISE THE IMPACT OF LAST SUNDAY'S DEBATE BEFOREHAND BY HOLDING HIS OWN

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PRESS CONFERENCE ON THURSDAY 18 SEPTEMBER. HE USED HIS OPENING PRESENTATION TO GIVE A SKILLFUL RESUME OF HIS ADMINISTRATION'S ACHIEVEMENTS IN FOREIGN AND DOMESTIC AFFAIRS, BUT THE QUESTION PERIOD TURNED SOUR ON HIM. HE WAS CHALLENGED SEVERAL TIMES TO JUSTIFY HIS SUGGESTION IN A RECENT CAMPAIGN SPEECH THAT REAGAN WAS INJECTING QUOTE RACISM AND HATRED UNQUOTE INTO THE CAMPAIGN. IN ATTEMPTING TO EXPLAIN AWAY HIS REMARKS, THE PRESIDENT WAS FORCED TO BACKTRACK. THE OVERALL IMPACT OF THE PRESS CONFERENCE, AND OF THE PRESIDENT'S NON-PARTICIPATION IN SUNDAY'S DEBATE, HAS BEEN TO MAKE HIM LOOK MEAN. BOTH THE PRESS AND REAGAN ARE MAKING GREAT PLAY WITH THIS. BUT CARTER'S CAMPAIGN STYLE WAS MUCH THE SAME FOUR YEARS AGO AND THE REAL TEST FOR THE PRESIDENT MAY WELL BE HOW HE HANDLES EVENTS IN THE REAL WORLD OVER THE NEXT FEW WEEKS.

HENDERSON

*FCO/WHITEHALL
NAD*

THIS TELEGRAM
WAS NOT
ADVANCED

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Read in full.
USA

FM WASHINGTON 112330Z SEPTEMBER 80

TO PRIORITY FCO

TELEGRAM NUMBER 3979 OF 11 SEPTEMBER

INFO SAVING ALL NATO AND EC POSTS, MOSCOW, TOKYO AND C GS IN USA.

US PRESIDENTIAL CAMPAIGN.

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1. ON 9 SEPTEMBER THE LEAGUE OF WOMEN VOTERS INVITED THE INDEPENDENT CANDIDATE, CONGRESSMAN JOHN ANDERSON, TO TAKE PART ALONG WITH CARTER AND REAGAN IN THE TELEVISED DEBATES BETWEEN THE PRESIDENTIAL CANDIDATES SPONSORED BY THE LEAGUE. WITHIN HOURS, CARTER'S CAMPAIGN MANAGER ANNOUNCED THAT THE PRESIDENT QUOTE RESPECTFULLY DECLINED UNQUOTE TO PARTICIPATE IN A THREE-WAY DEBATE BECAUSE HE WISHED FIRST TO DEBATE THE ISSUES FACE TO FACE WITH REAGAN ALONE. REAGAN AND ANDERSON QUICKLY ACCEPTED THE LEAGUE'S INVITATION. SUBSEQUENT NEGOTIATIONS BETWEEN THE LEAGUE AND REPRESENTATIVES OF THE THREE CANDIDATES HAVE SO FAR FAILED TO ARRIVE AT ANY MUTUALLY ACCEPTABLE COMPROMISE. THE FIRST DEBATE, WITH OR (MORE LIKELY) WITHOUT CARTER, IS SCHEDULED FOR 21 SEPTEMBER.

2. IN THE PAST TWO WEEKS THE MEDIA HAVE ELEVATED THE QUESTION OF WHETHER OR NOT ANDERSON SHOULD TAKE PART IN THE DEBATES TO A MAJOR TACTICAL ISSUE IN THE CAMPAIGN. CARTER AND HIS SPOKESMEN HAVE INSISTED THAT, WHILE HE WOULD BE WILLING TO TAKE PART IN DEBATES INCLUDING ANDERSON OR ANY OTHER SERIOUS CANDIDATE AT SOME LATER STAGE, THE FIRST NATIONALLY TELEVISED DEBATE (WHICH IS RECKONED TO HAVE THE MOST IMPACT ON PUBLIC OPINION) SHOULD BE RESTRICTED TO THE TWO MAJOR CANDIDATES. CARTER'S POSITION DERIVES FROM HIS MANAGERS' ASSESSMENT (BORNE OUT BY SOME, BUT NOT ALL, CURRENT PUBLIC OPINION POLLS) THAT IF ANDERSON REMAINS A VIABLE CANDIDATE HE WILL TAKE MORE VOTES FROM CARTER THAN FROM REAGAN IN NOVEMBER: AND THAT CARTER'S STRATEGY SHOULD THEREFORE BE TO MAKE REAGAN THE ISSUE AND TO FOSTER THE IMAGE OF ANDERSON AS NO MORE THAN AN IRRELEVANT SPOILER BUT IF ANDERSON WERE INCLUDED IN THE OPENING DEBATE, THIS WOULD BOTH ENHANCE HIS CREDIBILITY AND DETRACT FROM CARTER'S OWN ASSAULT ON REAGAN.

3 THE IMMEDIATE EFFECT OF CARTER'S ACTION HAS BEEN TO MAKE HIM LOOK WEAK AND ARROGANT AND TO INCREASE PUBLIC SYMPATHY FOR ANDERSON. BUT CARTER IS GAMBLING THAT THE INEVITABLE CRITICISM OF HIS OPEN ATTEMPT TO FREEZE ANDERSON OUT WILL FADE: AND THAT THE PUBLIC WILL PAY LITTLE ATTENTION TO ANY DEBATES WHICH TAKE PLACE WITHOUT HIM. HE MAY BE RIGHT. BUT HE IS TAKING THE OBVIOUS RISK THAT HIS ATTITUDE COULD ITSELF BECOME A DAMAGING ISSUE IN THE CAMPAIGN. REAGAN AND ANDERSON ARE ALREADY DRAWING UNFLATTERING PARALLELS WITH CARTER'S BEHAVIOUR VIS-A-VIS KENNEDY IN THE DEMOCRATIC NOMINATION CAMPAIGN: AND OBSERVERS HAVE NOTED THAT REAGAN (IN IOWA) AND BUSH (IN NEW HAMPSHIRE) EACH IN TURN SUFFERED IN THE REPUBLICAN PRIMARIES FROM REFUSING TO TAKE PART IN DEBATES WITH ALL THEIR OPPONENTS.

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4. AS THINGS STAND, REAGAN IS IN THE TACTICALLY VIRTUOUS POSITION OF APPEARING READY TO DEBATE ALL COMERS AND OF DEFENDING ANDERSON'S RIGHT TO BE HEARD. HE CALCULATES THAT HIS INTEREST IS BEST SERVED IF ANDERSON MAINTAINS SOMETHING LIKE HIS EXISTING LEVEL OF POPULAR SUPPORT. THE REAGAN CAMP FEAR THAT LIBERAL REPUBLICANS WILL BE THE LAST OF ANDERSON'S CURRENT SUPPORTERS TO ABANDON HIM, SO THAT THE LOWER HE SINKS IN THE POLLS THE GREATER THE RISK THAT HE WILL END UP DRAWING MORE VOTES AWAY FROM REAGAN THAN CARTER IN KEY STATES.

5. ANDERSON HAS BEEN PINNING HIS HOPES ON THE DEBATES AS A MEANS OF REINVIGORATING HIS FALTERING CAMPAIGN THROUGH NATIONWIDE TV EXPOSURE ON EQUAL TERMS WITH CARTER AND REAGAN. BUT THE LEAGUE'S INVITATION WILL PROBABLY BENEFIT HIM LESS THAN HE HOPED, SINCE CARTER'S ABSENCE FROM THE FIRST DEBATE WOULD LESSEN ITS IMPACT: AND IT IS QUESTIONABLE WHETHER REAGAN, HAVING MADE HIS POINT, WOULD SEE ADVANTAGE IN MORE THAN ONE DEBATE WITH ANDERSON ALONE. NEVERTHELESS, THE LEAGUE OF WOMEN VOTERS HAVE GIVEN ANDERSON'S CANDIDACY A SEAL OF RESPECTABILITY AND, IN EFFECT, CERTIFIED THAT HIS RECENT SLIDE IN THE POLLS HAS BEEN ARRESTED, AT LEAST TEMPORARILY. THE FOUR MOST RECENT MAJOR POLLS SHOW ANDERSON'S SUPPORT VARYING BETWEEN 13 PER CENT AND 18 PER CENT, WITH THREE OF THEM PUTTING ANDERSON AT OR ABOVE THE 15 PER CENT QUALIFYING MARK SET BY THE LEAGUE FOR PARTICIPATION IN THE DEBATES. AND SO LONG AS THE ARGUMENT ABOUT THE DEBATES PERSISTS, ANDERSON IS ASSURED OF EXTENSIVE AND GENERALLY SYMPATHETIC MEDIA COVERAGE.

6. ANDERSON HAS ALSO BEEN HELPED RECENTLY BY THE FEDERAL ELECTION COMMISSION'S DECISION THAT, PROVIDED HE OBTAINS AT LEAST 5 PER CENT OF THE POPULAR VOTE IN NOVEMBER, HE WILL QUALIFY RETROACTIVELY FOR SOME FEDERAL FUNDING OF HIS CAMPAIGN EXPENSES (THEREBY MAKING IT EASIER FOR HIS FINANCIALLY STRAPPED CAMPAIGN TO BORROW MONEY NOW): AND BY THE DECISION OF THE EXECUTIVE COMMITTEE OF THE NEW YORK LIBERAL PARTY TO ENDORSE HIM, THEREBY ENSURING THAT ANDERSON WILL BE ON THE NEW YORK BALLOT IN NOVEMBER, NEW YORK, WITH ITS 41 ELECTORAL COLLEGE VOTES, IS CRUCIAL TO CARTER: HE WON NARROWLY THERE IN 1976 AND MUST CARRY THE STATE THIS YEAR IF HE IS TO BEAT REAGAN. CURRENT NEW YORK POLLS SHOW CARTER MARGINALLY AHEAD OF REAGAN BUT HIGHLY VULNERABLE TO A STRONG SHOWING BY ANDERSON. THE LATTER'S LIBERAL PARTY ENDORSEMENT COULD STRENGTHEN HIS CHANCES OF ATTRACTING A SIGNIFICANT PROPORTION OF THE IMPORTANT AND TRADITIONALLY DEMOCRATIC JEWISH VOTE, WHO MAY SEIZE THIS OPPORTUNITY TO EXPRESS THEIR DISENCHANTMENT WITH CARTER WITHOUT HAVING TO GO OVER TO REAGAN. THE NEW YORK OUTLOOK HAS BEEN FURTHER COMPLICATED BY THE UNEXPECTED DEFEAT OF SENATOR JAVITS IN THE REPUBLICAN SENATORIAL PRIMARY ON 9 SEPTEMBER. BUT JAVITS WILL STILL BE ON THE BALLOT FOR THE SENATE SEAT IN NOVEMBER SINCE HE, TOO, HAS BEEN ENDORSED BY THE LIBERAL PARTY, AND THIS COULD ALSO WORK TO ANDERSON'S ADVANTAGE.

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7. MEANWHILE CARTER HAS MAINTAINED HIS RECOVERY IN THE PUBLIC OPINION RATINGS. NATIONWIDE SURVEYS GENERALLY SHOW HIM CLOSE BEHIND OR EQUAL WITH REAGAN. MORE SIGNIFICANTLY, A RECENT INDEPENDENT STATE-BY-STATE SURVEY SHOWED REAGAN COMFORTABLY AHEAD IN 20 STATES WITH A TOTAL OF 137 ELECTORAL COLLEGE VOTES (MAINLY IN THE WEST AND MIDWEST, BUT INCLUDING LOUISIANA, MISSISSIPPI AND TEXAS, WHICH CARTER CARRIED IN 1976): CARTER LEADING, BUT GENERALLY MORE NARROWLY, IN 14 STATES WITH 159 ELECTORAL VOTES, MAINLY IN THE SOUTH: AND 15 STATES WITH 228 ELECTORAL VOTES WHERE, ON PRESENT FORM, THE RESULT COULD GO EITHER WAY. BESIDES NEW YORK, THESE INCLUDE CALIFORNIA (45), ILLINOIS (26), MICHIGAN (21), FLORIDA (17) AND NEW JERSEY (17). ANDERSON IS STRONGEST IN MASSACHUSETTS, THE STATE WHERE HE CAME CLOSEST TO WINNING A REPUBLICAN PRIMARY. THE RACE IS THUS STILL VERY OPEN.

8. WE ARE REPORTING SEPARATELY (NOT TO ALL) ON THE CANDIDATES' CURRENT POSITIONS ON SUBSTANTIVE ISSUES.

FCO PLEASE PASS SAVING TO ANKARA ATHENS BONN BRUSSELS COPENHAGEN DUBLIN LISBON LUXEMBOURG OSLO PARIS ROME THE HAGUE UKREP BRUSSELS OTTAWA REYKJAVIK AND UKDEL NATO MOSCOW TOKYO

HENDERSON

REPEAT AS REQUESTED

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THIS TELEGRAM
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PRIME MINISTER

IR.
✓ Mr. H. G. ...
Prime Minister 2
would but we
could handle power
workers like this here.
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When passing through Los Angeles recently I was particularly interested to note the handling and outcome of the power workers strike there and thought you too might be interested in a brief resume of what occurred.

2 The power and water workers in Los Angeles were offered a 9 per cent pay increase which they declined claiming 18 per cent and embarked upon strike action. As it is illegal for these workers to strike the authorities took out a Court Order and the union leaders were held to be in contempt of court. Meanwhile management took over the running of the plant and purchased electricity supplies from out of State companies. There was however a threat of complete blackouts and hospitals were warned to see that their generators were in order, so that the unions were in a fairly powerful position. Various union leaders were interviewed from time to time on television stating their determination to see the matter through and expressing derision for the Court Order. Within 24 hours of such expressions of derision they were back at the negotiating table. The main issue of the negotiations not being the pay settlement but an amnesty from the summonses which had been issued against the unions. Within a further two days the strike was settled. Eleven per cent was offered and accepted, no amnesty was given, so that the summonses and fines are still outstanding and furthermore the unions are having to pay for any company vehicles which were used for picketing. A very limited number of pickets were allowed during the course of the strike.

contd/.....



3 While all this was going on there was no political controversy whatsoever, no politicians participated criticising the administration on behalf of the strikers, nor did the media participate in any controversial commentaries whatsoever but merely reported the facts. Nor was there any evidence of any strong public feelings for or against the strikers other than some mild concern about the possibility of a blackout.

4 This all illustrates vividly not only the difference in law and practice but most of all the difference in public and political attitudes in the United States.

A handwritten signature in blue ink that reads "Sally". The signature is written in a cursive style with a long horizontal flourish extending to the right.

SALLY OPPENHEIM

8 September 1980

1-9 SEP 1-50

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TO PRIORITY FCO

TELEGRAM NO 3834 OF 25 AUGUST

INFO SAVING ALL NATO POSTS DUBLIN UKREP BRUSSELS

MOSCOW TOKYO ATLANTA BOSTON CHICAGO CLEVELAND DETROIT HOUSTON

LOS ANGELES NEW YORK SAN FRANCISCO SEATTLE

MY IMMEDIATELY PRECEDING TELEGRAM: THE OUTLOOK FOR A SECOND CARTER
TERM

1. IT IS OFTEN SUGGESTED THAT IF PRESIDENT CARTER WINS IN NOVEMBER, THEN IN HIS SECOND TERM, FREED FROM THE CONSTRAINTS OF RE-ELECTION CALCULATIONS, THE REAL JIMMY CARTER WILL AT LAST STAND UP. BUT EVEN AFTER THREE AND A HALF YEARS, IT IS STILL HARD TO SAY WHO THE REAL JIMMY CARTER IS. AS A RECENT NEW YORK TIMES ARTICLE PUT IT, WHEN CARTER'S MOST EARNEST AND THOUGHTFUL SUPPORTERS TALK ABOUT A SECOND TERM, THEY SOUND LIKE THE BLIND MEN DESCRIBING THE ELEPHANT. AT BASE, CARTER'S PERSONALITY IS SPLIT BETWEEN WHAT BRZEZINSKI HAS CALLED QUOTE THE MORALIST AND THE ENGINEER UNQUOTE. THE MORALIST ACCOUNTS FOR IMPULSIVE, ILL-THOUGHT-OUT ACTIONS (EG THE EARLY HUMAN RIGHTS CAMPAIGN): THE ENGINEER FINDS EXPRESSION IN THE TENDENCY TO PROPOSE OVER-AMBITIOUS, EXCESSIVELY DETAILED SOLUTIONS TO COMPLEX AND POLITICALLY CONTENTIOUS PROBLEMS (E.G. THE ORIGINAL ENERGY PACKAGE). BOTH ARE REFLECTED IN CARTER'S RELUCTANCE TO TAKE ADEQUATE ACCOUNT OF THE WASHINGTON POLITICAL PROCESS, THE WHEELING AND DEALING REQUIRED TO TRANSLATE PROPOSALS INTO LEGISLATION (IN CONTRAST TO HIS TALENT FOR POLITICAL MANIPULATION FOR ELECTORAL PURPOSES).
2. EXPERIENCE HAS GIVEN CARTER A BETTER APPRECIATION OF THE POLITICAL REALITIES OF WASHINGTON, BUT IT HAS NOT CHANGED HIS NATURE. IN A SECOND TERM WE SHOULD STILL BE DEALING WITH AN INTELLIGENT MAN WITH GOOD INTENTIONS, A READINESS TO EMBARK ON UNPOPULAR COURSES AND GREAT POWER OF APPLICATION: BUT ONE WHO, AS A FORMER WHITE HOUSE STAFFER PUT IT, BELIEVES IN 50 DIFFERENT THINGS AT ONCE AND WHO LACKS THE ABILITY TO RELATE DIFFERENT AREAS OF POLICY AND TO BALANCE CONFLICTING CONSIDERATIONS IN ORDER TO ARRIVE AT A BROADLY COHERENT AND COMPREHENSIBLE STRATEGY. THIS TENDENCY TO SEE ISSUES IN SEPARATE COMPARTMENTS COULD AGAIN BE REFLECTED IN THE ADOPTION OF CONTRADICTORY PUBLIC POSITIONS AND SOMETIMES A LACK OF DETERMINATION TO SEE INDIVIDUAL POLICIES THROUGH WHEN THEY HAVE ENCOUNTERED MORE THAN A CERTAIN AMOUNT OF RESISTANCE.
3. EVEN THOUGH RELIEVED OF ELECTORAL PRESSURES, CARTER WOULD STILL HAVE TO OPERATE WITHIN THE LIMITS OF THE POLITICALLY POSSIBLE AND SUBJECT TO THE PRESSURE OF EVENTS OUTSIDE HIS CONTROL. HE WOULD STILL

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HAVE TO GET HIS PROGRAMMES THROUGH A CONGRESS WHOSE CENTRE OF GRAVITY IS LIKELY TO HAVE SHIFTED FURTHER TO THE RIGHT AND WHICH WILL REMAIN SUBJECT TO ALL THE INTERNAL AND EXTERNAL INFLUENCES WHICH HAVE MADE IT AN INCREASINGLY UNMANAGEABLE INSTITUTION. AND HIS PROBLEMS WOULD BE INCREASED IF THE REPUBLICANS WERE TO GAIN CONTROL OF THE SENATE, WHICH IS POSSIBLE ALTHOUGH ON BALANCE IT LOOKS UNLIKELY AT PRESENT. IT IS DOUBTFUL IF HE WOULD PROVE TO BE A SIGNIFICANTLY MORE SKILLFUL WASHINGTON POLITICIAN IN HIS SECOND TERM THAN IN HIS FIRST. BUT HE MIGHT DO SOMETHING TO STRENGTHEN THE ADMINISTRATIVE PROFESSIONALISM OF HIS STAFF (AS HE BELATELY STARTED TO DO LAST AUGUST) AND TO IMPROVE THE WHITE HOUSE CONGRESSIONAL LIAISON OPERATION, AND APPOINT SOME MORE EFFECTIVE MANAGERS TO SENIOR ADMINISTRATION POSTS. BUT IF BRZEZINSKI STAYED ON AS NATIONAL SECURITY ADVISER (AND WE HAVE HEARD NOTHING TO SUGGEST THE CONTRARY), WE SHOULD HAVE TO EXPECT CONTINUING TENSION AND DIVIDED RESPONSIBILITY BETWEEN THE NSC AND THE STATE DEPARTMENT.

4. IT WOULD BE IDLE TO ATTEMPT A DETAILED FORECAST OF LIKELY SECOND TERM POLICIES AT THIS STAGE AND THE PARTY PLATFORM IS NOT A RELIABLE GUIDE. BUT CLUES TO THE PRIORITIES CARTER MIGHT SET CAN BE FOUND IN HIS CONVENTION ACCEPTANCE SPEECH, OTHER RECENT SPEECHES AND INTERVIEWS AND WHAT WE KNOW OF THE WHITE HOUSE STAFF'S CONTINGENCY PLANNING.

5. A RECURRENT THEME OF THE ACCEPTANCE SPEECH WAS CARTER'S ASSERTIONS THAT QUOTE THE PRESIDENT IS THE STEWARD OF THE NATION'S DESTINY.... HIS TRUE CONSTITUENCY IS THE FUTURE ... THE TIME TO SHAPE THE WORLD OF THE YEAR 2000 IS NOW UNQUOTE. THIS ATTITUDE HAS COLOURED MUCH OF CARTER'S INTELLECTUAL APPROACH TO PROBLEMS (BUT BY NO MEANS ALL HIS ACTIONS) IN THE PAST AND WOULD PROBABLY BE GIVEN EVEN GREATER WEIGHT IN A SECOND TERM. ACCORDINGLY, CARTER'S SECOND TERM AGENDA IS LIKELY TO GIVE RENEWED EMPHASIS TO PROMOTING GREATER US ENERGY SELF-SUFFICIENCY, BOTH AS AN END IN ITSELF AND AS ONE IMPORTANT MEANS OF ACHIEVING THE RELATED GOAL OF REINVIGORATING AMERICAN INDUSTRIAL CAPACITY AND PRODUCTIVITY. THIS SUGGESTS GIVING PRIORITY TO EXPANDED PRODUCTION OF INDIGENOUS ENERGY (COAL, SHALE, SYNFUELS) COUPLED WITH ACCELERATED DEVELOPMENT OF THE NECESSARY INDUSTRIAL AND TRANSPORTATION INFRASTRUCTURE. THERE MAY BE FURTHER EFFORTS TO STRIKE A MORE PRAGMATIC BALANCE BETWEEN THESE AIMS AND ENVIRONMENTAL PROTECTION: AND CARTER WILL PROMOTE ENERGY CONSERVATION AND R AND D SUPPORT FOR LONGER TERM DEVELOPMENT OF BENIGN ENERGY SOURCES (E.G. SOLAR POWER). THE PLACE OF NUCLEAR POWER IN THIS PROGRAMME REMAINS AN OPEN QUESTION.

6. THE WATCHWORDS OF ECONOMIC POLICY WOULD PROBABLY BE INVESTMENT INCENTIVES AND FISCAL RESPONSIBILITY. BUT THE ECONOMIC AND FISCAL HISTORY OF CARTER'S FIRST TERM SUGGEST THAT IT WOULD BE UNWISE TO ATTEMPT MORE DEFINITE PREDICTIONS FOR HIS SECOND.

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7. IN FOREIGN AFFAIRS, EAST-WEST RELATIONS AND THE MIDDLE EAST WOULD CONTINUE TO ABSORB MOST OF THE ADMINISTRATION'S ATTENTION. CARTER IS COMMITTED TO STRENGTHENING US DEFENCE CAPABILITIES AND THE MOOD OF THE COUNTRY IS LIKELY TO PRECLUDE ANY QUICK OR SIGNIFICANT SOFTENING OF ATTITUDES TOWARDS THE SOVIET UNION IN THE ABSENCE OF A RADICAL CHANGE IN SOVIET BEHAVIOUR. BUT CARTER IS ALSO GENUINELY COMMITTED TO EAST-WEST ARMS CONTROL AND WOULD BE ON THE LOOK-OUT FOR OPPORTUNITIES TO REVIVE THE PROCESS AND PERHAPS MORE WILLING TO TAKE DOMESTIC POLITICAL RISKS TO DO SO.

8. THERE IS SPECULATION THAT IN A SECOND TERM CARTER MIGHT BE READIER TO EXERT POLITICAL LEVERAGE ON ISRAEL. BUT EVEN IF HE WERE, THE AMERICAN JEWISH LOBBY WOULD BE CORRESPONDINGLY READY TO BRING COUNTER-PRESSURE TO BEAR ON PUBLIC OPINION AND CONGRESS, SO THAT CARTER'S PUTATIVE WILLINGNESS TO ACT IN THIS AREA SHOULD NOT BE OVER-ESTIMATED.

9. ALTHOUGH CARTER'S HEART IS IN THE RIGHT PLACE, WE SHOULD HAVE TO EXPECT CONTINUING GAPS BETWEEN PROMISE AND PERFORMANCE IN THE CONDUCT OF US RELATIONS WITH WESTERN EUROPE AND JAPAN. SOURCES OF STRAIN ARE LIKELY TO PERSIST OVER DIFFERENCES OF INTEREST AND ASSESSMENT IN THE HANDLING OF RELATIONS WITH THE SOVIET UNION; THE MIDDLE EAST, ESPECIALLY ARAB-ISRAELI MATTERS; AND THE BALANCE OF EUROPEAN AND US CONTRIBUTIONS TO SAFEGUARDING WESTERN INTERESTS. MORE GENERALLY THERE COULD BE A REVIVAL OF US EMPHASIS ON HUMAN RIGHTS, RELATIONS WITH THE THIRD WORLD AND NORTH/SOUTH QUESTIONS (THOUGH WITH A CLEAR AWARENESS OF US ECONOMIC INTERESTS).

10. IN BRIEF: SOME SHIFTS IN EMPHASIS BUT NO FUNDAMENTAL CHANGE IN DIRECTION, CAPACITY OR PERFORMANCE.

F.C.O PASS SAVING TO ALL.

FRETWELL

STANDARD
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COPIES SENT TO
No. 10 DOWNING STREET

THIS TELEGRAM
WAS NOT
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[PASSED AS REQUESTED]

Prime Minister

*You may like to
read through Sir N.
Henderson's two telegrams
on election prospects*

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FM WASHINGTON 252255Z AUG 80

TO PRIORITY F C O

TELEGRAM NO 3833 OF 25 AUGUST

INFO SAVING ALL NATO POSTS, DUBLIN, UKREP BRUSSELS, MOSCOW, TOKYO,
ATLANTA, BOSTON, CHICAGO, CLEVELAND, DETROIT, HOUSTON, LOS ANGELES,
NEW YORK, SAN FRANCISCO, SEATTLE

US PRESIDENTIAL ELECTION: THE OUTLOOK FOR THE DEMOCRATS

1. IN THE WAKE OF THE DEMOCRATIC CONVENTION PRESIDENT CARTER HAS REGISTERED SHARPER THAN EXPECTED GAINS AGAINST RONALD REAGAN IN THE PUBLIC OPINION POLLS. THE LATEST GALLUP POLL SHOWS CARTER AND REAGAN RUNNING NECK AND NECK: REAGAN 39% CARTER 38%, COMPARED WITH REAGAN'S 45-31 LEAD BEFORE THE CONVENTION. TWO OTHER POST-CONVENTION POLLS SHOW REAGAN STILL AHEAD BUT WITH A MUCH REDUCED LEAD. REAGAN'S LEAD HAS FALLEN, ACCORDING TO THE HARRIS SURVEY, FROM 20 TO 6 POINTS (NOW 42-36 AND, ACCORDING TO AP/NBC, FROM 25 TO 7 POINTS (NOW 39-32). THE INDEPENDENT JOHN ANDERSON'S SUPPORT VARIES FROM 13-17 PER CENT: HE NEEDS TO AVERAGE AT LEAST 15 PER CENT BY 10 SEPTEMBER IN ORDER TO QUALIFY FOR PARTICIPATION IN THE NATIONALLY TELEVISED PRESIDENTIAL DEBATES ORGANISED BY THE LEAGUE OF WOMEN VOTERS.

2. THESE FIGURES STILL DO NOT PROVIDE ANY FIRM GUIDE AS TO HOW THE ELECTORATE WILL VOTE ON 4 NOVEMBER, ALTHOUGH THEY ARE CONSISTENT WITH PREDICTIONS OF A CLOSE RACE. PUBLIC REACTIONS TO THE TELEVISED DEBATES BEGINNING IN MID-SEPTEMBER MAY PROVIDE A MORE RELIABLE INDICATION OF THE WAY OPINION IS MOVING. BUT IN THIS VOLATILE YEAR MANY VOTERS ARE LIKELY TO MAKE UP THEIR MINDS AT A VERY LATE STAGE.

3. MOREOVER, SINCE THE OUTCOME OF THE PRESIDENTIAL ELECTION WILL DEPEND NOT ON THE NATIONAL POPULAR VOTE BUT ON THE RESULT IN EACH OF THE 50 STATES, IN A CLOSE RACE REGIONAL VARIATIONS MAY BE MORE SIGNIFICANT THAN NATIONAL TRENDS OF OPINION. FOR THE SAME REASON, EVEN IF ANDERSON'S SUPPORT SINKS TO AROUND 5-10 PER CENT NATIONALLY (AS COULD WELL HAPPEN) HIS INTERVENTION COULD STILL DETERMINE THE OUTCOME IN A FEW KEY STATES, PROBABLY TO CARTER'S DISADVANTAGE.

4. THE 1980 ELECTIONS ARE TAKING PLACE AGAINST A BACKGROUND OF BROADER SHIFTS IN POPULAR ATTITUDES, WHOSE EXTENT AND DEPTH ARE HARD TO QUANTIFY BUT WHICH GO BEYOND IMMEDIATE PREOCCUPATIONS WITH ECONOMIC RECESSION AND A TROUBLING INTERNATIONAL OUTLOOK. THE SYMPTOMS INCLUDE:

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(A) DIMINISHED CONFIDENCE IN THE EFFICACY OF REPRESENTATIVE POLITICAL INSTITUTIONS AND OF THE POLITICAL PARTIES AS VEHICLES FOR POPULAR ASPIRATIONS - EXEMPLIFIED BY STEADILY DECLINING ELECTORAL TURNOUTS SINCE 1960 AND THE PROLIFERATION OF NON-PARTY SINGLE ISSUE GROUPS:

(B) GROWING DISLIKE OF THE "BIG GOVERNMENT", WELFARE STATE APPROACH TO ECONOMIC AND SOCIAL PROBLEMS CHARACTERISTIC OF DEMOCRATIC ADMINISTRATIONS SINCE ROOSEVELT. THIS IS REFLECTED IN INCREASED HOSTILITY TO WHAT IS SEEN AS WASTEFUL GOVERNMENT EXPENDITURE AND EXCESSIVE FEDERAL REGULATION (BUT THIS GENERALISED CRITICISM OF THE BUREAUCRACY IS ACCOMPANIED BY PERSISTENT EFFORTS BY EACH SPECIAL INTEREST GROUP TO PRESERVE OR EXTEND GOVERNMENT PROGRAMMES FROM WHICH IT BENEFITS).

5. THE REPUBLICANS ARE SEEKING TO EXPLOIT THIS MALAISE WITH SKILFUL ADVERTISING WHICH ASCRIBES THE BLAME FOR ALL AMERICA'S DISCONTENTS TO THE CARTER ADMINISTRATION AND THE DEMOCRATS' NEARLY UNBROKEN CONTROL OF CONGRESS FOR THE LAST 30 YEARS AND URGES VOTERS TO "VOTE REPUBLICAN - FOR A CHANGE". OPINION SURVEYS SUGGEST THAT THIS IS MAKING SOME IMPACT, BUT NOT ENOUGH TO GIVE THE REPUBLICANS CONTROL OF CONGRESS THIS YEAR, ALTHOUGH THEY COULD SECURE A MAJORITY IN THE SENATE.

6. AGAINST THIS BACKGROUND, THE DEMOCRATS ARE GOING INTO THE ELECTIONS DIVIDED AND ON THE DEFENSIVE, BEHIND AN INCUMBENT PRESIDENT WHO AROUSES LITTLE REAL ENTHUSIASM EVEN AMONG THE FAITHFUL. THE SPLIT BETWEEN KENNEDY'S LIBERAL IDEOLOGUES AND CARTER'S PRAGMATISTS WAS BARELY PAPERED OVER AT THE CONVENTION. CARTER'S BRAND OF SOUTHERN DEMOCRATIC POLITICS, WITH ITS BLEND OF POPULISM AND CONSERVATISM, IS MORE IN TUNE WITH THE PUBLIC MOOD THAN KENNEDY'S ANACHRONISTIC LIBERALISM AND SHOULD GIVE HIM THE MIDDLE GROUND. BUT HE WILL NEED MORE THAN TOKEN SUPPORT FROM KENNEDY IF HE IS FULLY TO MOBILISE SOME DISENCHANTED SECTORS OF THE DEMOCRATIC CONSTITUENCY (EG BLACKS, ORGANISED LABOUR) BEHIND HIM AND IT IS STILL FAR FROM CERTAIN THAT HE WILL GET IT. AND A GOOD MANY OF KENNEDY'S SINGLE-ISSUE SUPPORTERS, WHOSE FIRST LOYALTY IS TO A PARTICULAR CAUSE RATHER THAN TO THE DEMOCRATIC PARTY, MAY WELL OPT OUT OR GO OVER TO ANDERSON RATHER THAN WORK FOR A DEMOCRATIC CANDIDATE OF WHOM THEY DISAPPROVE.

7. CARTER'S INCUMBENCY IS BOTH AN ASSET AND A LIABILITY. THE INCUMBENT'S CAPACITY TO MAKE AND EXPLOIT THE NEWS AND TO DISPOSE OF (OR WITHHOLD) FEDERAL FUNDS TO THE MAXIMUM ELECTORAL ADVANTAGE IS A PRICELESS ASSET. BUT AS THE MAN IN CHARGE AT A TIME OF ECONOMIC TROUBLES AT HOME AND EMBARRASSMENT OR WORSE ABROAD, CARTER IS SELF-EVIDENTLY VULNERABLE TO ATTACKS ON HIS RECORD. THERE IS SOME SUBSTANCE TO THE DEMOCRATS' COMPLAINT THAT THIS ADMINISTRATION HAS

BEEN UNDER-RATED BY THE PRESS AND PUBLIC. FOR ALL HIS ADMINISTRATION'S INCONSISTENCIES, LAPSES IN EXECUTION AND ACCIDENT-PRONENESS, CARTER HAS BEEN GIVEN INSUFFICIENT CREDIT FOR HIS READINESS TO TACKLE DIFFICULT AND UNPOPULAR ISSUES: BUT MANY OF HIS ACHIEVEMENTS HAVE BEEN EITHER CONTROVERSIAL IN THEMSELVES (EG THE PANAMA CANAL TREATIES) OR OF A KIND WHICH MAKE LITTLE IMMEDIATE OR POSITIVE IMPACT ON THE ELECTORATE (EG GOVERNMENT REORGANISATION, THE TOKYO ROUND OF THE GATT MTNS AND THE PAINFUL PASSAGE THROUGH CONGRESS OF THE ENERGY PROGRAMME). IT IS LITTLE WONDER THAT CARTER'S CAMPAIGN STRATEGY RESTS ON ALL-OUT ATTACK ON REAGAN AND THE HOPE THAT REAGAN WILL MAKE SOME FATALLY DAMAGING MISTAKE.

8. CARTER IS AN EFFECTIVE CAMPAIGNER WITH A MEAN AND CAPABLE CAMPAIGN STAFF. HE IS AN ACCOMPLISHED POLITICAL CHAMELEON, SKILLED IN APPEALING TO THE PARTICULAR INTERESTS OF HIS AUDIENCE. BUT BY THE SAME TOKEN HE HAS NEVER SUCCEEDED IN ARTICULATING CONVINCINGLY AN OVERALL VISION OF WHERE HE WANTS TO LEAD AMERICA OR A COMPREHENSIVE STRATEGY FOR GETTING THERE. HE IS NOT HATED, BUT NEITHER IS HE LOVED. HE IS STILL WIDELY REGARDED AS AN HONEST, COURAGEOUS AND INTELLIGENT MAN DOING HIS BEST, BUT OUT OF HIS DEPTH IN THE WHITE HOUSE, THOUGH HELD IN CONTEMPT BY SOME, HE REMAINS AN ENIGMA TO MOST, AND HE LACKS ANY SOLID BASE OF POPULAR SUPPORT WHICH WILL STICK WITH HIM THROUGH THICK AND THIN. IF HE WINS THE ELECTION IT WILL BE AS THE LESSER OF TWO EVILS.

9. A LOT MAY TURN ON THE TELEVISION DEBATES BETWEEN THE CANDIDATES, IN WHICH CARTER WILL TRY TO EXPOSE REAGAN AS ANOTHER BARRY GOLDWATER AND REAGAN WILL TRY TO MAKE CARTER LOOK SMALL. CARTER'S STRENGTH IS HIS MASTERY OF HIS BRIEFS AND HIS FLUENCY IN DEBATE. REAGAN'S STRENGTH IS THAT, AS PRESIDENT NIXON ONCE SAID, "GOLDWATER CAN MAKE PERFECTLY REASONABLE STATEMENTS SOUND CRAZY, WHILE REAGAN CAN MAKE CRAZY STATEMENTS SOUND PERFECTLY REASONABLE". IT IS HARD TO PREDICT WHETHER THE ELECTORATE WILL BE MORE IMPRESSED BY CARTER'S PECULIAR BLEND OF SOFT-SPOKEN HYPERBOLE AND DOGGED EXPOSITION OF THE COMPLEXITY OF THE PROBLEMS OF CONTEMPORARY GOVERNMENT, OR BY REAGAN'S AMIABLE PRESENTATION OF PAINLESS PRESCRIPTIONS FOR "MAKING AMERICA GREAT AGAIN".

10. IN MIFT I CONSIDER WHAT WE MIGHT EXPECT FROM A SECOND CARTER TERM.

FCO PASS SAVING ALL NATO POSTS, DUBLIN, UKREP BRUSSELS, MOSCOW, TOKYO.

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TELEGRAM NUMBER 3779 OF 15 AUGUST 1980

INFO SAVING PARIS BONN ROME TOKYO MOSCOW UKDEL NATO BIS NEW YORK
AND ALL C-G'S IN USA.

Prime Minister

*Sir N Henderson's
analysis of the democratic
convention*

MAF 21/8

DEMOCRATIC NATIONAL CONVENTION, NEW YORK, 11-14 AUGUST

1. DEMOCRATIC CONVENTION DELEGATES CAME TO MADISON SQUARE GARDEN DIVIDED AND DEMORALISED. THEY EMERGED, AFTER A TRADITIONAL DISPLAY OF FRATRICIDAL INFIGHTING, WITH AN OUTWARD SEMBLANCE OF UNITY BEHIND PRESIDENT CARTER, BUT UNITED MORE BY FEAR AND LOATHING OF RONALD REAGAN THAN BY ENTHUSIASM FOR THEIR OWN PRESIDENTIAL NOMINEE, AND WITH THE MUTUAL BITTERNESS OF THE CARTER AND KENNEDY CAMPS BY NO MEANS FULLY ASSUAGED.

2. THE DEMOCRATS HAD GOOD REASONS FOR THEIR UNCONFIDENT MOOD. PRESIDENT CARTER HEADS THE FIRST DEMOCRATIC ADMINISTRATION SINCE THE 1890'S TO BE GOING INTO A PRESIDENTIAL ELECTION AT A TIME OF SERIOUS ECONOMIC RECESSION, AND HIS HANDLING OF THE ECONOMY IS SEEN BY MANY AS A BETRAYAL OF TRADITIONAL DEMOCRATIC VALUES. HE TRAILS REAGAN BY 20 POINTS IN THE POLLS, WHICH ALSO SHOW A UNITED AND CONFIDENT REPUBLICAN PARTY CURRENTLY RUNNING NECK-AND-NECK WITH THE DEMOCRATS IN CONGRESSIONAL ELECTION RACES. A RECENT GALLUP POLL SHOWED THAT ABOUT 50 PERCENT OF DEMOCRATS NATIONWIDE WOULD PREFER A PRESIDENTIAL NOMINEE OTHER THAN CARTER; BUT SIGNIFICANTLY (AND IN CONTRAST WITH THE NOISY ENTHUSIASM OF THE KENNEDY DELEGATES IN NEW YORK), ONLY ABOUT A QUARTER OF THEM EXPRESSED A PREFERENCE FOR KENNEDY.

3. AGAINST THIS UNPROMISING BACKGROUND, CARTER CAN COUNT THE CONVENTION A REASONABLE SUCCESS. HAVING DEFEATED KENNEDY ON THE CRUCIAL RULES VOTE ON THE FIRST EVENING, HE WENT ON TO WIN RENOMINATION BY A CONVINCING MAJORITY. IF HE HAS NOT YET UNITED THE PARTY BEHIND HIM MUCH OF THE RESPONSIBILITY MUST LIE WITH KENNEDY, WHO FOUGHT ON BY FRONTAL ATTACKS AND PROCEDURAL PLOYS LONG AFTER IT WAS CLEAR THAT HE HAD LOST AND WHO, HAVING MARCHED HIS TROOPS TO THE TOP OF THE HILL, WILL BE HARD-PRESSED TO MARCH THEM DOWN AGAIN AND MAY BE LOATH TO MOBILISE THEM ON CARTER'S BEHALF.

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4 INDEED THE CONVENTION WAS LARGELY DOMINATED BY OUTWARD DEBATE AND BEHIND-THE-SCENES NEGOTIATIONS OVER THE PRICE CARTER WOULD HAVE TO PAY FOR KENNEDY'S ENDORSEMENT. IN THE IMMEDIATE AFTERMATH OF KENNEDY'S ELECTRIFYING SPEECH ON TUESDAY NIGHT, CARTER WAS FORCED TO CONCEDE MANY OF THE AMENDMENTS TO THE ECONOMIC SECTION OF THE PARTY PLATFORM DEMANDED BY KENNEDY, INCLUDING A DOLLARS 12 BILLION JOB-CREATION PROGRAMME (BUT NOT A WAGES AND PRICES FREEZE). THE CARTER WHIPS SUBSEQUENTLY RALLIED THEIR FORCES TO DEFEAT OTHER KENNEDY DEMANDS INCLUDING, NOTABLY, REPUDIATION OF THE MX MISSILE PROGRAMME. IN THE END KENNEDY ENDORSED, EVEN IF HE DID NOT EXACTLY EMBRACE, THE PRESIDENT. BUT CARTER LEFT MANY KENNEDY LIBERALS DISGRUNTLED WHEN IN HIS WRITTEN COMMENTS ON THE AMENDED PLATFORM (WHICH PARTY RULES REQUIRED HIM TO CIRCULATE) HE EXPRESSED RESERVATIONS ABOUT GIVING PRIORITY TO THE FIGHT FOR JOBS, RATHER THAN AGAINST INFLATION, AND REFUSED TO COMMIT HIMSELF TO A SPECIFIC FIGURE FOR THE JOB-CREATION PROGRAMME.

5. KENNEDY'S ADDRESS TO THE CONVENTION WAS PROBABLY THE BEST ORATORICAL PERFORMANCE OF HIS CAREER AND A PERSONAL TRIUMPH WHICH MADE CARTER'S ACCEPTANCE SPEECH LOOK LACKLUSTRE BY COMPARISON. MORE OF A RALLYING CALL THAN A VALEDICTORY, KENNEDY'S RINGING DECLARATION OF LIBERAL DEMOCRATIC PRINCIPLES AND ALL-OUT ATTACK ON REAGAN HAD A CATHARTIC EFFECT ON THE CONVENTION.

6. LAST NIGHT'S SPEECHES BY MONDALE AND CARTER ALSO CONCENTRATED ON ATTACKING REAGAN AND THE REPUBLICAN PROGRAMME. CARTER CONTRASTED THE FUTURE OF ECONOMIC SECURITY, JUSTICE AND PEACE OFFERED BY THE DEMOCRATS WITH THE REPUBLICAN FUTURE OF SURRENDER: QUOTE THE SURRENDER OF OUR ENERGY FUTURE TO THE MERCHANTS OF OIL: THE SURRENDER OF OUR ECONOMIC FUTURE TO A BIZARRE PROGRAMME OF MASSIVE TAX CUTS FOR THE RICH, MASSIVE SERVICE CUTS FOR THE POOR, AND MASSIVE INFLATION FOR EVERYONE UNQUOTE. THE PRESIDENT COMPARED WHAT HE DESCRIBED AS REAGAN'S CALL FOR A NEW NUCLEAR ARMS RACE WITH HIS OWN POLICIES OF PRUDENT STRENGTHENING OF AMERICA'S /DEFENCE

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DEFENCE CAPABILITIES COUPLED WITH COMMITMENT TO ARMS CONTROL. IN CONTRAST TO HIS OWN MEASURED RESPONSE TO THE SOVIET INVASION OF AFGHANISTAN, REAGAN HAD OPPOSED THE SUSPENSION OF GRAIN SALES, OPPOSED DRAFT REGISTRATION AND WAFFLED ON THE ISSUE OF THE OLYMPIC BOYCOTT; QUOTE HE DOES NOT SEEM TO KNOW WHAT TO DO WITH THE RUSSIANS. HE IS NOT SURE WHETHER HE WANTS TO FEED THEM, PLAY WITH THEM, OR FIGHT WITH THEM UNQUOTE. THE PRESIDENT AGREED WITH GEORGE BUSH'S CAMPAIGN DESCRIPTION OF REAGAN'S TAX CUT PROPOSALS AS QUOTE VOODOO ECONOMICS UNQUOTE. THE REPUBLICANS COULD ONLY COMBINE THEIR PROMISES OF A BALANCED BUDGET, MASSIVE TAX CUTS AND MASSIVE INCREASES IN DEFENCE SPENDING BY ABOLISHING EVERYTHING ELSE QUOTE FROM EDUCATION TO FARM PROGRAMMES TO THE GI BILL TO THE NIGHT-WATCHMAN OF THE LINCOLN MEMORIAL UNQUOTE. TO SUCCUMB TO THAT FANTASY WORLD WOULD BE TO WAKE UP IN A NIGHTMARE WHEREAS TO START WITH REALITY, AS THE DEMOCRATS DID, WOULD BE THE FIRST STEP TOWARDS REALISING QUOTE THE DREAM OF ALL AMERICANS OF A GOOD LIFE IN A NATION STRONG AND SECURE UNQUOTE.

7. IN THE COMING CAMPAIGN, THE DEMOCRATS WILL SEEK TO MAKE REAGAN THE ISSUE JUST AS REAGAN WILL SEEK TO FOCUS THE SPOTLIGHT ON THE ADMINISTRATION'S RECORD. IF ANDERSON CONTINUES TO DROP IN THE POLLS (HIS SUPPORT HAS SLIPPED FROM 24 PERCENT TO 13 PERCENT IN TWO MONTHS) WE CAN EXPECT TO SEE A TRADITIONAL TWO PARTY CAMPAIGN. THE PRESIDENT IS AT PRESENT THE UNDERDOG BUT OVER THE PAST FEW WEEKS HE HAS ONCE AGAIN DEMONSTRATED HIS ABILITY TO EMERGE THE HERO OF DISASTERS SOMETIMES OF HIS OWN MAKING. IF HE CAN KEEP KENNEDY AT HIS SIDE, AND NOT AT HIS THROAT, HE SHOULD BE ABLE TO RALLY HIS PARTY FOR WHAT IS LIKELY TO BE A BITTER AND CLOSE-FOUGHT BATTLE WITH THE REPUBLICANS.

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TO PRIORITY FCO

TELEGRAM NO 3695 OF 5 AUGUST

INFO PRIORITY MEXICO CITY (FOR SECRETARY OF STATE'S PARTY)

INFO SAVING UKMIS NEW YORK, EC AND NATO POSTS, TRIPOLI, TEHRAN

MY TELEGRAM NO 3687 (NOT TO ALL):

BILLY CARTER: PRESIDENT CARTER'S PRESS CONFERENCE

1. PRESIDENT CARTER'S PERFORMANCE AT HIS PRESS CONFERENCE ON 5 AUGUST LOOKED FIRM AND CONFIDENT AND SHOULD HAVE GONE SOME WAY TO RE-ASSURE HIS SUPPORTERS, THOUGH IT WILL NOT HAVE STILLED ALL THE DOUBTS ARISING FROM THIS SORRY EPISODE.

2. THE PRESIDENT'S OWN INTEGRITY HAD NOT BEEN SERIOUSLY CHALLENGED BY ANY OF THE EVIDENCE SO FAR PRODUCED IN THE BILLY CARTER AFFAIR AND MUCH OF THE PUBLIC DRAMA HAD BEEN ARTIFICIALLY BUILT UP BY THE FEVERISH PRESS SPECULATION OF AN ELECTION YEAR. BUT WITH THE PRESS IN FULL CRY, THE WHITE HOUSE WAS FORCED INTO GIVING PIECEMEAL EXPLANATIONS, WHICH FED THE RUMOUR, UNDERMINED THE PRESIDENT'S POSITION AND ENABLED THOSE WHO WANT TO DUMP CARTER TO EXPLOIT THE FEARS OF FELLOW DEMOCRATS THAT THE PRESIDENT WAS GOING TO DRAG THEM ALL DOWN TO DEFEAT IN THE AUTUMN.

3. THE PRESIDENT FACED A RISK, BEFORE HIS PRESS CONFERENCE, THAT HE WOULD BE UNABLE TO STEM THE MOVE TOWARDS AN QUOTE OPEN CONVENTION UNQUOTE WHICH WOULD HAVE FREED HIS DELEGATES OF THEIR OBLIGATION TO VOTE FOR HIM AND ENABLED SENATOR KENNEDY OR A THIRD CANDIDATE TO OFFER A SERIOUS CHALLENGE FOR THE NOMINATION. THE PRESIDENT IS NOT YET OUT OF THE WOOD (AND WILL NOT BE UNTIL HE HAS WON THE CRUCIAL VOTE ON PARTY RULES AT THE CONVENTION ON 11 AUGUST). BUT HIS AUTHORITATIVE AND UNRUFFLED PERFORMANCE LAST NIGHT WILL HAVE GIVEN HIS OPPONENTS PAUSE, STRENGTHENED THE FAINTHEARTS IN HIS OWN RANKS AND REAFFIRMED HIS OWN POSITION AS A CLEAR FAVOURITE FOR THE DEMOCRATIC NOMINATION.

4. THE BILLY CARTER AFFAIR WILL NOT FADE AWAY, ALTHOUGH THE FULL ACCOUNT SENT TO CONGRESS BY THE PRESIDENT YESTERDAY (TEXT BY BAG) HAS ALREADY TAKEN SOME OF THE HEAT OUT OF THE SITUATION. THE CONGRESSIONAL COMMITTEE EXAMINING THE AFFAIR HAS CONFIRMED ITS INTENTION TO CONTINUE ITS INVESTIGATIONS AND MAY YET CALL ON THE PRESIDENT TO GIVE TESTIMONY. THE CONGRESSIONAL HEARINGS ALONE WILL CONSTITUTE A CONTINUING PUBLIC QUESTION MARK OVER THE PROPRIETY AND WISDOM OF THE PRESIDENT'S BEHAVIOUR. AT THE SAME

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*Weekend box
USA
Prime Minister
Sir N Henderson's
assessment of Carter's
'Billygate' press
conference*

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TIME, WHILE THE PRESIDENT'S ACCOUNT OF HIS ROLE MAY REESTABLISH HIS IMAGE OF INTEGRITY IT WILL RE-AWAKEN DOUBTS ABOUT HIS JUDGEMENT, E.G. WHAT KIND OF PRESIDENT ACCEPTS HIS WIFE'S ADVICE TO USE HIS ALCOHOLIC BROTHER AS A MEANS OF INFLUENCING THE POLICIES OF AN UNRELIABLE AND HOSTILE GOVERNMENT?

5. WHILE PRESIDENT CARTER HAS BEEN ON THE ROPES, GOVERNOR REAGAN HAS BEEN QUIETLY CONSOLIDATING HIS POSITION. MR CARTER'S OVERALL APPROVAL RATING IN THE MOST RECENT POLL (21 PERCENT) IS THE LOWEST EVER RECORDED BY ANY AMERICAN PRESIDENT. CARTER TRAILS REAGAN BY 27 PERCENT IN MOST POLLS AND IS EVEN RUNNING BEHIND ANDERSON IN SOME SURVEYS. SENATOR KENNEDY IS ONE OF MANY POLITICIANS WHO HAVE (OR SHOULD HAVE) LEARNED THE MISTAKE OF UNDERESTIMATING CARTER'S ABILITY TO FIGHT BACK. THE PRESIDENT'S OWN PEOPLE ARGUE, MORE FROM DESPERATION THAN CONVICTION, THAT HE HAS HIT ROCK BOTTOM AND MUST NOW BOUNCE BACK. THE AMERICAN PUBLIC (UNLIKE THE PRESS) HAS FELT MORE SYMPATHY THAN SUSPICION THROUGHOUT THE BILLY CARTER AFFAIR AND INITIAL REACTION TO THE PRESS CONFERENCE HAS BEEN FAVOURABLE. THE PRESIDENT HAS, ONCE AGAIN, PICKED HIMSELF UP OFF THE FLOOR. BUT THE WAY HE GOT THERE HAS NOT STRENGTHENED HIS CLAIM TO BE THE MAN BEST QUALIFIED TO LEAD HIS NATION.

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TO PRIORITY F C O

TEL NO 2631 OF 29 JULY 1980

INFO UKREP BRUSSELS, PARIS, BONN, ROME, TOKYO, OTTAWA,
UKMIS GENEVA, UKMIS NEW YORK.

THE U S ECONOMY AND THE PRESIDENTIAL ELECTION.

1. PRESIDENT CARTER FACES A DIFFICULT DILEMMA IN HANDLING ECONOMIC POLICY DURING THE FINAL RUN-UP TO THE ELECTION. THE MARCH ANTI-INFLATION PACKAGE, WITH ITS TIGHT CREDIT CONTROLS AND ITS OBJECTIVE OF A BALANCED BUDGET, CONTRIBUTED TO THE STEEPNESS OF THE RECESSION. THE INFLATION RATE HAS COME DOWN SOMEWHAT, BUT HOW LONG IT WILL STAY DOWN REMAINS TO BE SEEN. IN THE MEANTIME UNEMPLOYMENT IS CONTINUING TO RISE AND IS LIKELY TO BE RUNNING AT 8 AND ONE HALF PERCENT BY THE END OF THE YEAR. THE STEEL INDUSTRY IS WORKING AT BARELY 50 PERCENT CAPACITY. THE CAR INDUSTRY IS IN AN UNPRECEDENTED MESS, WITH IMPORT PENETRATION AT OVER 25 PERCENT THE DOLLAR IS WEAK. AND TO CAP IT ALL, THE MUCH FLAUNTED BALANCED BUDGET FOR 1981 PROMISES TO TURN INTO A HEFTY DEFICIT. THIS IS ANYTHING BUT AN IDEAL SCENARIO FOR THE PRESIDENT'S ELECTION PROSPECTS AND IT IS UNLIKELY TO ALTER SUBSTANTIALLY BETWEEN NOW AND NOVEMBER.

2. IN THIS SITUATION, IT HAS BEEN RELATIVELY EASY FOR HIS OPPONENTS TO PRE-EMPT THE TACTICAL GROUND. KENNEDY, STILL FIGHTING (WHO HAS STILL NOT RENOUNCED HIS CANDIDACY) FOR THE DEMOCRATIC NOMINATION, OFFERS THE ALTERNATIVE OF SOMETHING APPROACHING A MANAGED ECONOMY. HE CALLS FOR A SIX MONTH FREEZE ON PRICES, WAGES, INTEREST RATES, DIVIDENDS AND RENTS, FOLLOWED BY A PERIOD OF CONTROLS AND A 12 BILLION DOLLAR JOB CREATION PROGRAMME. HE TALKS OF THE NEED TO QUOTE RE-INDUSTRIALISE UNQUOTE AMERICA. HE ARGUES AGAINST THE DE-CONTROL OF OIL PRICES, IN FAVOUR OF PETROL RATIONING AND OF PHASING OUT ALL NUCLEAR POWER STATIONS. HIS ECONOMIC PRESCRIPTIONS ARE DESIGNED TO APPEAL TO THE TRADITIONAL DEMOCRATIC CONSTITUENCY: BUT ALTHOUGH HE PRESENTS THEM AS THE ULTIMATE JUSTIFICATION OF HIS CHALLENGE TO CARTER, THEY SEEM TO ATTRACT LESS ATTENTION NOW THAN THEY DID DURING THE PRIMARIES.

3. A MORE SERIOUS CHALLENGE COMES FROM REAGAN, WHOSE ECONOMIC STRATEGY, UNDERNEATH ALL THE RHETORIC, IS CLOSER TO THE PRESIDENT'S IN THAT IT IS STRONGLY MARKET-ORIENTED. REAGAN IS IN FAVOUR OF REDUCING THE BURDEN OF TAXATION, CURBING GOVERNMENT REGULATION, ENCOURAGING INVESTMENT AND PRODUCTIVITY AND HENCE EMPLOYMENT. HIS EARLIER PANACEA OF A 30 PERCENT TAX CUT SPREAD OVER THREE YEARS CAME UNDER HEAVY CRITICISM AS BEING BASED

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ON DANGEROUSLY OVER-SIMPLIFIED ASSUMPTIONS. HE IS NOW PROPOSING A 10 PERCENT TAX CUT AND ACCELERATED DEPRECIATION ALLOWANCES TO TAKE EFFECT IN 1981, AS QUOTE DOWN PAYMENT UNQUOTE ON FURTHER UNSPECIFIED TAX CUTS TO TAKE EFFECT WHEN CONDITIONS ALLOW. WITH THIS PROPOSAL, HE HAS FOR THE MOMENT STOLEN A MARCH ON THE ADMINISTRATION AND NARROWED THEIR ROOM FOR MANOEUVRE: AND HIS PROMISES TO RESTORE FULL EMPLOYMENT HAVE PUT THE ADMINISTRATION ON THE DEFENSIVE OVER A TRADITIONALLY DEMOCRATIC ISSUE.

4. THE PRESIDENT'S TACTICAL PROBLEM IS TO PURSUE POLICIES THAT ARE SEEN TO BE RESPONSIBLE, WHILE OFFERING TANGIBLE HOPE OF IMPROVEMENT. HE MUST NOT LET UP ON INFLATION, BUT NEEDS TO SHOW THAT HE TOO HAS CLEAR PLANS FOR DEALING WITH UNEMPLOYMENT. HE NEEDS TO DIFFERENTIATE HIMSELF FROM REAGAN, WITHOUT MAKING IT IMPOSSIBLE, WHEN HE JUDGES IT RIGHT, TO ADOPT MEASURES THAT MAY NOT LOOK UNLIKE THOSE THAT REAGAN HAS ALREADY PROPOSED.

5. THE PRESIDENT HAS THEREFORE DECIDED AGAINST TABLING A TAX CUT AT THIS STAGE, WHILE MAKING IT CLEAR THAT ONE MAY WELL BE DESIRABLE IN 1981. HE HAS SAID THAT HE WILL BE WORKING WITH CONGRESS TO DEVELOP A PROGRAMME THAT WILL ASSIST ECONOMIC RECOVERY WHILE HELPING TO ACHIEVE LONG TERM ECONOMIC OBJECTIVES. THIS WAY HE CAN HOPE TO FEND OFF CRITICISM FOR NOT STIMULATING THE ECONOMY NOW, WHILE WAITING FOR THE EXPECTED TECHNICAL IMPROVEMENT IN THE MONTHLY PRICE INDEX. THIS MAY ENABLE HIM TO CLAIM, IN DUE COURSE, WITH SOME HOPE OF CREDIBILITY THAT INFLATION IS ON THE WAY TO BEING LICKED AND THAT IT IS NOW SAFE TO THINK OF GIVING A TOUCH TO THE ACCELERATOR. IT WILL LEAVE HIM FREE TO FORMULATE A PROPOSAL AT A TIME AND IN TERMS THAT HE JUDGES TO BE ELECTORALLY MOST PROFITABLE - FOR EXAMPLE, AID TO CAR WORKERS, TO THE STEEL INDUSTRY, OR TO THE FARMERS: OR MEASURES AIMED MORE GENERALLY AT REVITALISING THE ECONOMY. TO THAT EXTENT HE RETAINS THE TACTICAL ADVANTAGE OF THE INCUMBENT. BUT WITH ALL HIS OTHER PROBLEMS, AND WITH THE RANGE OF CHOICES SO NARROW, IT IS BY NO MEANS CLEAR THAT THE ADVANTAGE WILL PROVE DECISIVE: AND WHATEVER PALLIATIVES HE PROPOSES, CARTER WILL REMAIN HIGHLY VULNERABLE TO CRITICISM OF HIS ECONOMIC MANAGEMENT OVER THE PAST FOUR YEARS.

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FM WASHINGTON 290100Z JULY 80
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TELEGRAM NUMBER 2620 OF 29 JULY 80.
INFO ANKARA, ATHENS, BRUSSELS, BONN, COPENHAGEN, LISBON, LUXEMBOURG,
OTTAWA, OSLO, PARIS, ROME, REYKJAVIK, THE HAGUE, UK DEL NATO, DUBLIN,
UK REP BRUSSELS AND UK MIS NEW YORK.
INFO SAVING ATLANTA, BOSTON, CHICAGO, CLEVELAND, DETROIT, HOUSTON,
LOS ANGELES, C G NEW YORK, SAN FRANCISCO, SEATTLE AND DALLAS.

U.S. PRESIDENTIAL ELECTION : CONSEQUENCES OF ANDERSON'S CANDIDACY.

1. SEE M.I.P.T. M

2. ALTHOUGH ANDERSON IS CURRENTLY GETTING SUPPORT FROM BOTH
DEMOCRVCVGFUGWFMFXZY OF RE-ELECTION. EVEN IF ANDER-
SON'S POPULARITY FADES (AS HAS HAPPENED IN THE PAST WITH INDEPENDENT
AND THIRD PARTY CANDIDATES) IT COULD STILL REMAIN AT A LEVEL SUFF-
ICIENT TO TIP THE BALANCE AGAINST CARTER IN SOME KEY MARGINAL STATES
CONVERSELY, IF ANDERSON'S POPULAR SUPPORT HOLDS FIRM ENOUGH TO
ENABLE HIM TO TOP THE POLL IN EVEN A FEW STATES, AND THUS WIN THOSE
STATES' ELECTORAL COLLEGE VOTES, THIS COULD PRODUCE A DEADLOCK
WHEN THE ELECTORAL COLLEGE MEETS ON 15 DECEMBER. I DO NOT SAY THAT
THIS IS GOINT TO HAPPEN; BUT THERE IS ENOUGH SPECULATION ABOUT IT
FOR ME TO TRY TO EXPLAIN THE IMPLICATIONS, COMPLICATED THOUGH THEY
ARE.

3. UNDER THE CONSTITUTION, THE PRESIDENT IS FORMALLY ELECTED, NOT BY
DIRECT POPULAR VOTE, BUT BY THE ELECTORAL COLLEGE, IN WHICH EACH
STATE HAS THE SAME NUMBER OF VOTES AS IT HAS MEMBERS OF CONGRESS,
AND IN WHICH AN ABSOLUTE MAJORITY (270 VOTES OUT OF 538) IS
REQUIRED FOR ELECTION. BY TRADITION, THOUGH NOT BY CONSTITUTIONAL
REQUIREMENT, EACH STATE CASTS ALL ITS VOTES FOR THE CANDIDATE
WHO HAS WON A MAJORITY OF THE POPULAR VOTE IN THAT STATE -
I.E. ON A WINNER TAKE ALL BASIS. THUS IF CARTER AND REAGAN RAN
NECK AND NECK IN TERMS OF ELECTORAL COLLEGE VOTES, ANDERSON IN
THEORY WOULD NEED TO WIN ONLY ONE LARGE STATE (SAY, NEW YORK) OR
A HANDFUL OF SMALL ONES IN ORDER TO DEPRIVE BOTH THE LEADING
CANDIDATES OF AN OVERALL MAJORITY.

4. IN THAT EVENT, IT WOULD FALL TO THE NEW HOUSE OF REPRESENTATIVES,
NOT MEETING UNTIL 3 JANUARY 1981, TO ELECT THE NEW PRESIDENT. THE
CONSTITUTIONAL AND POLITICAL REPERCUSSIONS OF SUCH A MOVE HAVE
BEEN SET OUT IN DETAIL IN CORRESPONDENCE WITH THE DEPARTMENT.
IT IS IMPOSSIBLE TO FORECAST AT THIS STAGE HOW THE HOUSE WOULD
BE LIKELY TO VOTE. BECAUSE VOTES WOULD BE CAST BY STATE DELEGATIONS,
WITH ONE VOTE PER STATE, RATHER THAN BY INDIVIDUAL CONGRESSMEN, IT
CANNOT BE ASSUMED THAT THE HOUSE WOULD NECESSARILY VOTE FOR THE
DEMOCRATIC CANDIDATE JUST BECAUSE THE DEMOCRATS HAD RETAINED AN

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OVERALL MAJORITY (AS LOOKS PRETTY CERTAIN). AND SINCE STATE DELEGATIONS EVENLY SPLIT BETWEEN TWO CANDIDATES MAY NOT VOTE, IT COULD BE DIFFICULT TO PRODUCE THE OVERALL MAJORITY (26 VOTES) NEEDED TO ELECT A PRESIDENT.

5. THE IMPLICATIONS FOR THE CONDUCT OF GOVERNMENT BUSINESS DURING THE 2 AND A HALF MONTHS BETWEEN THE PRESIDENTIAL ELECTION AND THE INAUGURATION OF THE NEW PRESIDENT ON 20 JULY ARE DISTURBING. INSTEAD OF THE NORMAL, FAIRLY ORDERLY TRANSITION FROM ONE ADMINISTRATION TO THE NEXT, THERE WOULD BE A VACUUM OF POWER AND AUTHORITY WHICH WOULD BE FILLED BY UNPRECEDENTED POLITICAL BARGAINING. ALTHOUGH THE CARTER ADMINISTRATION WOULD REMAIN IN OFFICE UNTIL 20 JANUARY, ONLY THE MOST ROUTINE, ONGOING BUSINESS WOULD BE CONDUCTED. WHERE THE HOUSE OF REPRESENTATIVES UNABLE TO REACH A DECISION ON THE NEXT PRESIDENT BY 20 JANUARY THE ACTING VICE-PRESIDENT WOULD TAKE OVER. SINCE HE WOULD HAVE BEEN ELECTED SEPARATELY BY THE NEW SENATE, WITH EACH SENATOR CASTING A VOTE, AND SINCE HIS SELECTION WOULD REFLECT PARTY BALANCE THERE (NOT NECESSARILY SAME AS THE POPULAR VOTE AS EXPRESSED ON 4 NOVEMBER) THE POLITICAL CONFUSION COULD CONTINUE. DEPENDING ON THE OUTCOME OF THE CONGRESSIONAL ELECTIONS, IT WOULD THEORETICALLY BE POSSIBLE FOR THE HOUSE TO ELECT A PRESIDENT FROM ONE PARTY AND FOR THE SENATE TO ELECT A VICE PRESIDENT FROM THE OTHER.

6. THE AMERICAN PRESS IS FULL OF SOMEWHAT FEVERED SPECULATION OF THIS KIND. BUT IF PRESIDENT CARTER SECURES HIS PARTY'S NOMINATION IN 2 WEEKS' TIME (AND THE ODDS REMAIN FIRMLY IN HIS FAVOUR) AND IF THE PRESS HAVE DRAWN AS MUCH BLOOD FROM THE BILLY CARTER AFFAIR AS THEY CAN, THE FRENETIC MOOD OF THE MOMENT MAY PASS. NEVERTHELESS, THE PECULIAR CIRCUMSTANCE OF THIS ELECTION, AND OF ANDERSON'S CANDIDACY IN PARTICULAR, ARE LIKELY TO PROVOKE MORE THAN THE USUAL NERVOUSNESS AND DISTRACTION WITHIN BOTH CONGRESS AND ADMINISTRATION OVER THE NEXT FEW MONTHS.

HENDERSON

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FM WASHINGTON 290030Z JUL 80

TO PRIORITY FCO

TELEGRAM NUMBER 2619 OF 29 JULY

INFO NATO POSTS, UKMIS NEW YORK, UKREP BRUSSELS, DUBLIN.

INFO SAVING AL C-GS IN U S A.

*Read in full**mb*U.S. PRESIDENTIAL ELECTION

1. THE DEMOCRATIC PARTY WILL GO TO THEIR NOMINATING CONVENTION IN NEW YORK (11-14 AUGUST) IN DISARRAY. THE BILLY CARTER ENQUIRY IN THE SENATE COULD KEEP THE AFFAIR BEFORE THE PUBLIC UNTIL OCTOBER; AND IT IS LIKELY TO POINT, AT THE VERY LEAST, TO ERRORS OF PROPRIETY AND JUDGEMENT WHICH WILL ERODE THE PRESIDENT'S IMAGE OF INTEGRITY (PERHAPS HIS GREATEST ASSET) AND REINFORCE WIDESPREAD DOUBTS ABOUT THE QUALITY OF SOME OF THOSE IN HIS IMMEDIATE CIRCLE. AND THE FACT THAT THE PRESIDENT TOLERATED HIS BROTHER'S DEALINGS WITH LIBYA, OF ALL COUNTRIES, WILL INCREASE JEWISH VOTERS' DISENCHANTMENT WITH CARTER.

2. THE BILLY CARTER AFFAIR HAS GIVEN A NEW LEASE OF LIFE TO SENATOR KENNEDY'S EFFORTS TO SEEK AN QUOTE OPEN UNQUOTE CONVENTION, I.E. ONE WHERE THE DELEGATES WOULD BE RELEASED FROM THEIR OBLIGATION TO VOTE FOR THE CANDIDATE IN WHOSE NAME THEY WERE CHOSEN IN THE PRIMARIES. A RULE CHANGE OF THIS KIND, INTENDED TO DEPRIVE PRESIDENT CARTER OF HIS CURRENT SURE MAJORITY OF SOME 700 COMMITTED DELEGATE VOTES, IS BEING ACTIVELY ESPOUSED BY A GROUP OF ABOUT 30 DEMOCRATIC CONGRESSMEN, LED BY KENNEDY SUPPORTERS BUT INCLUDING A NUMBER WHO FEAR THAT CARTER WILL BE DEFEATED ON 4 NOVEMBER, DRAGGING THEM DOWN WITH HIM IN THE CONGRESSIONAL ELECTIONS ON THE SAME DAY.

3. THIS GROUP, WHICH SO FAR DOES NOT INCLUDE ANY SENIOR OR INFLUENTIAL FIGURES, HAS NO CREDIBLE ALTERNATIVE CANDIDATE. MOST SURVEYS INDICATE THAT, WHILE CARTER IS A DOUBTFUL WINNER, KENNEDY WOULD BE A CERTAIN LOSER. THE PRINCIPAL ALTERNATIVES BEING MENTIONED ARE MONDALE (WHO SHOWS NO SIGNS OF WAVERING IN HIS LOYALTY TO CARTER), MUSKIE AND SENATOR JACKSON. THE TWO LATTER HAVE SOUGHT AND FAILED TO WIN THE DEMOCRATIC NOMINATION IN THE PAST. NEITHER IS A NAME TO CONJURE WITH.

4. THE PANICKY MOOD OF SOME DEMOCRATIC MEMBERS OF CONGRESS (WHICH WAS ALSO MANIFESTED LAST MONTH IN DEMOCRATIC SENATORS' OVER-REACTION TO REPUBLICAN DEMANDS FOR AN IMMEDIATE 10 PERCENT TAX CUT) IS MATCHED BY UNUSUAL DESPONDENCY AMONG THE PRESIDENT'S OWN PEOPLE, FOR WHOM THE BILLY CARTER AFFAIR HAS COME AT WHAT WAS ALREADY A BAD TIME. THE CONTINUING DECLINE IN PUBLIC CONFIDENCE IN THE PRESIDENT'S HANDLING OF FOREIGN AND DOMESTIC AFFAIRS, ESPECIALLY THE

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ECONOMY, AND THE POSITIVE MESSAGE OF THE REPUBLICAN CONVENTION HAVE COMBINED TO GIVE REAGAN A 28 PERCENT LEAD IN THE MOST RECENT POLLS. THAT LEAD IS UNLIKELY TO HOLD (CARTER LED FORD BY 33 PERCENT THIS TIME 4 YEARS AGO AND WON THE ELECTION BY ONLY 2 PERCENT): BUT CARTER CAN LOOK FORWARD NEITHER TO AN EASY TRIUMPH AT THE CONVENTION NOR, THANKS TO THE CANDIDACY OF JOHN ANDERSON, TO A STRAIGHTFORWARD BATTLE AGAINST REAGAN IN THE AUTUMN.

5. PLEASE SEE M I F T FOR THE CONSEQUENCES OF ANDERSON'S CANDIDACY.

HENDERSON

*For JAMES HALL
NAD*

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TO FCO TEL NO. 37 OF 22 JULY 1980

INFO SAVING BONN, PARIS, ROME, TOKYO, OTTAWA, UKREP BRUSSELS, UKDEL OECD
REPUBLICAN PARTY ENERGY POLICY

1. The platform adopted by the Republican Party at its national Convention in Detroit pledges a future Reagan Administration to pursue a "steady and orderly path toward energy self-sufficiency". The main elements in this strategy are summarised below.
2. The background is important. American party platforms are essentially broad statements of objectives, rather than detailed policy blueprints. Traditionally they are not regarded as binding an incoming Administration to their prescriptions to anything like the same extent as, for example, British election manifestos. Moreover, even if Reagan wins the Presidential election, he is likely to have to deal with a Congress still controlled by the Democrats and still characterised by the internal conflicts of interest which have plagued President Carter's efforts to secure Congressional approval of his energy policies.
3. That said, a Reagan Administration would, on the supply side, "aggressively" encourage accelerated production of energy in the US, including nuclear power, and attempt to do away with regulatory and environmental obstacles. They would also maintain the objective of decontrol of energy prices. But on the demand side the Republicans are opposed to increasing gasoline taxes and lukewarm on conservation. Nevertheless, taken overall, the general thrust of their policies would probably be favourable from an international point of view.
4. A Reagan energy policy would be ostensibly more solidly based than present policies on traditional free enterprise philosophy. The concept is that, if unleashed from regulations, the powerful American

energy industry would eventually produce enough indigenous energy to eliminate US dependence on imported oil. The intention therefore would be to:-

- decontrol energy prices and reduce industry regulation to a minimum;
- relax environmental constraints, particularly on coal burning;
- encourage domestic coal production and use;
- accelerate the US nuclear programme, including breeder technology and reprocessing, with due regard to safety;
- partially repeal taxes on oil production such as the windfall profits tax;
- encourage accelerated oil and gas exploration.

5. To the extent that it was implemented, this would be a strong programme. Besides carrying on existing policies such as oil and gas price decontrol (reversing decisions of an earlier Republican Administration) and development of coal production, it would involve more emphasis on nuclear power and fewer environmental constraints on coal burning, oil shale development and oil/gas exploration in areas such as Alaska. A Reagan Administration would also tend to place less weight on unrealistic panaceas such as solar energy and other renewable technologies, while still encouraging research to accelerate their development in the longer term.

6. The drawbacks would be the declared Republican rejection of increased taxes on gasoline and their resistance to bringing about energy conservation other than through the (untaxed) price mechanism. The Republican platform also includes a commitment to build up the US strategic petroleum reserve as a short-term insurance against disruption of foreign supplies, and the rather unrealistic and far from new idea of a "North American Accord" with Mexico and Canada.

7. Mr Reagan would not be inhibited by President Carter's distrust of the oil companies, his distaste for nuclear power and his attachment to the environmental cause. But there would still be strong resistance in Congress to deregulation of the energy industry, repeal of oil industry taxes, relaxation of environmental controls and nuclear development. The test would lie in whether a Reagan Administration/could

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could convince Congress and public opinion that these changes were essential for American national security, and could persuade the many conflicting interests represented in the Congress to sink their differences sufficiently to arrive at a set of coherent national policies.

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TO PRIORITY F C O

TELEGRAM NUMBER 2550 OF 18 JULY

INFO SAVING PARIS BONN MOSCOW ROME TOKYO UKDEL NATO BIS NEW YORK
ALL CC's IN USA

*Useful summary.
Lead 1/2 full*

THE REPUBLICAN NATIONAL CONVENTION, DETROIT 14-17 JULY

1. THE REPUBLICAN PARTY HAS COME AWAY FROM DETROIT WITH ITS MORALE HIGH, OPTIMISTIC THAT REAGAN CAN WIN IN NOVEMBER, AND DETERMINED TO MAINTAIN THE OUTWARD AND VISIBLE SHOW OF PARTY UNITY WHICH WAS A PRINCIPAL THEME OF THE CONVENTION.
2. MOST OF THE PRINCIPAL SPEAKERS STRUCK A NOTE OF SOMBRE EVANGELISM. AMERICA WAS SAID TO BE FACING THE GREATEST THREAT IN ALL ITS HISTORY TO ITS VERY EXISTENCE AS A FREE NATION AS A CONSEQUENCE OF CARTER'S MISMANAGEMENT OF DEFENCE, FOREIGN POLICY AND ECONOMY. REPUBLICANS WERE CALLED ON TO UNITE IN A CRUSADE (REAGAN'S PHRASE) TO SAVE AMERICA AND MAKE AMERICA GREAT AGAIN THROUGH A COMBINATION OF STRONGER DEFENCE AND A MORE ASSERTIVE FOREIGN POLICY, COUPLED WITH A PRESCRIPTION OF GROWTH, OPPORTUNITY AND PROGRESS AT HOME. THE REPUBLICAN PROGRAMME IS ESSENTIALLY A MIXTURE OF PATRIOTISM AND POLULISM.
3. REAGAN'S OVERWHELMING ENDORSEMENT AS PRESIDENTIAL NOMINEE WAS A FOREGONE CONCLUSION. IN HIS ACCEPTANCE SPEECH ON 17 JULY REAGAN MADE A BROAD-BASED APPEAL TO VOTERS OF ALL PARTIES, QUOTING FROM ROOSEVELT'S NEW DEAL SPEECH OF 1932 (TO THE DISCOMFORT OF SOME OF THE RIGHT WING FUNDAMENTALISTS IN HIS AUDIENCE) AND UNDERTAKING TO CARRY OUT QUOTE THE UNKEPT PROMISES UNQUOTE OF DEMOCRATIC ADMINISTRATIONS AND A CONGRESS CONTROLLED BY THE DEMOCRATS FOR 25 YEARS. MANY OF THE THEMES WERE FAMILIAR: A 10 PERCENT TAX CUT IN 1981; IMPROVEMENTS IN BUSINESS DEPRECIATION TAXES; A FREEZE ON FEDERAL HIRING, STATE RATHER THAN FEDERAL CONTROL OF PROGRAMMES; STRONGER DEFENCE. BUT THE SPEECH ALSO INCLUDED AN APPEAL FOR SUPPORT FROM MINORITY GROUPS (TRADITIONALLY DEMOCRATIC VOTERS AND ALL BUT UNREPRESENTED AMONG THE DELEGATES); A PROMISE TO UPHOLD THE INTEGRITY OF ALL ASPECTS OF SOCIAL SECURITY AND A NOD IN THE DIRECTION OF ENERGY CONSERVATION - THE FIRST TIME REAGAN HAS ACKNOWLEDGED THE NEED FOR RESTRAINT.
4. REAGAN ALSO PROMISED CLOSE MONITORING OF STATE PRACTICES, AND LEGISLATION WHERE NECESSARY, TO ROOT OUT DISCRIMINATION AGAINST WOMEN - AN ATTEMPT TO PATCH UP THE DISPUTE IN THE PARTY OVER ITS ABANDONMENT AFTER 40 YEARS OF SUPPORT FOR AN EQUAL RIGHTS AMENDMENT TO THE CONSTITUTION. THE DISPUTE - AND THE PARTY'S SUPPORT FOR A CONSTITUTIONAL AMENDMENT TO BAN ABORTION - PROVIDED THE ONLY REAL CONTROVERSIES OF THE CONVENTION AND COULD GIVE THE PARTY SOME TROUBLE IN THE ELECTION CAMPAIGN: ERA IS AN EMOTIVE NATIONAL ISSUE AND A CONSTITUTIONAL AMENDMENT IS SUPPORTED BY A MAJORITY OF WOMEN VOTERS.

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5. THE ONLY DRAMA WAS PROVIDED BY THE ATTEMPT TO NEGOTIATE FORD'S NOMINATION AS VICE PRESIDENTIAL RUNNING MATE. THE INITIATIVE CAME FROM SENIOR REPUBLICANS SEEKING A QUOTE DREAM TICKET UNQUOTE AND WAS ENCOURAGED BY REAGAN. NEGOTIATIONS BROKE DOWN ON THE EXTENSIVE POWERS, INCLUDING CONTROL OF KEY APPOINTMENTS AND THE RUNNING OF THE NATIONAL SECURITY COUNCIL, WHICH FORD (OR AT ANY RATE HIS REPRESENTATIVES, WITH KISSINGER PROMINENT AMONG THEM) SOUGHT IN ORDER TO ENSURE HIM A SUBSTANTIVE ROLE AS VICE PRESIDENT. HAD FORD BEEN PREPARED TO PLAY SECOND FIDDLE WITHOUT CONDITIONS A REAGAN/FORD TICKET WOULD HAVE LOOKED VERY STRONG AND WOULD HAVE BEEN RAPTUROUSLY RECEIVED IN THE HEADY ATMOSPHERE OF THE CONVENTION. BUT FORD'S DEMAND FOR WHAT WOULD HAVE AMOUNTED TO A QUOTE CO-PRESIDENCY UNQUOTE WHICH WAS BOUND TO BE UNWORKABLE IN PRACTICE, TOGETHER WITH THE COMBINED AGE OF THE CANDIDATES (136) AND THE MUTUAL AND PUBLIC ANTAGONISM OF THEIR RELATIONS IN THE PAST, WOULD HAVE CREATED AN UNEASY SITUATION OPEN TO DAMAGING EXPLOITATION BY THE DEMOCRATS.

6. ALTHOUGH THE MANNER OF IT WAS MESSY, THE CHOICE OF BUSH AS RUNNING MATE BROADENS REAGAN'S APPEAL BOTH GEOGRAPHICALLY, NOTABLY IN THE NORTH EAST AND TEXAS, AND POLITICALLY; BUSH'S PRESENTATION IS MODERATE, ALTHOUGH HIS VIEWS ARE CONSERVATIVE; AND HE HAD NO DIFFICULTY IN SHELVING HIS SUPPORT FOR ERA AND FOR FREEDOM OF CHOICE ON ABORTION IN ORDER TO PROCLAIM HIS COMPLETE SUPPORT OF THE PARTY PLATFORM. WHILE SOME EXTREME CONSERVATIVES REMAIN UNHAPPY AT THE CHOICE, THERE IS LITTLE DOUBT THAT, FORD APART, BUSH WAS MORE ACCEPTABLE TO THE REPUBLICAN PARTY AS A WHOLE THAN ANY OTHER CANDIDATE AND BETTER PLACED TO DRAW ESSENTIAL CROSS-PARTY SUPPORT IN NOVEMBER. THE DEMOCRATS WILL UNDOUBTEDLY SEEK TO EXPLOIT THE UNTIDINESS OF BUSH'S NOMINATION AS EVIDENCE OF REAGAN'S INDECISION AND LACK OF JUDGEMENT. BUT PROVIDED THAT REAGAN AND BUSH CAN BE SEEN TO WORK COMFORTABLY TOGETHER, THIS EPISODE IS LIKELY TO BE A NINE-DAY'S WONDER.

7. THE REPUBLICANS HAVE SOME GROUNDS FOR THEIR CURRENT OPTIMISM. AT PRESENT REAGAN LEADS CARTER HANDILY IN THE POLLS AND HAS PUT CARTER ON THE DEFENSIVE OVER BOTH ECONOMIC POLICY AND FOREIGN AFFAIRS. REAGAN'S ACCEPTANCE SPEECH WAS SUBSTANTIVE AND CREDIBLE AND, TOGETHER WITH HIS CHOICE OF BUSH, SHOWED THAT HE IS CAPABLE OF SEEKING TO REACH THE BROAD CONSTITUENCY HE NEEDS IF HE IS TO WIN IN NOVEMBER. HE HAS ALSO SO FAR MADE ALL THE RUNNING, CAMPAIGNING NON-STOP SINCE FEBRUARY. CARTER WILL HAVE TO CATCH UP; BUT DESPITE THE VULNERABILITY OF HIS RECORD, HE HAS THE GREAT PRACTICAL ADVANTAGES OF INCUMBENCY; AND HIS OWN CAMPAIGN SKILLS ARE FORMIDABLE AND, SO FAR THIS YEAR, LARGELY UNTAPPED. REAGAN'S ADVISERS ARE WELL AWARE THAT THEY HAVE A TOUGH FIGHT AHEAD OF THEM.

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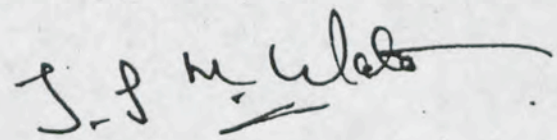
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North America DepartmentThe American Presidential Elections

As you know, Mr Bill Bundy, the Editor of 'Foreign Affairs', had an informal talk with the Secretary of State on Monday 16 June. Mr Bundy's message was very clear: Reagan might well win the Presidential elections, as discontent with Carter's economic performance mounted. Reagan was hopelessly simplistic and ignorant about foreign affairs, an atavistic nationalist who thought in terms of America's friends and enemies (including amongst the former Taiwan). On the Middle East he had a tendency to out-Begin Begin, though such was his lack of background on foreign affairs that he was quite capable of tilting unpredictably in the other direction, eg following a recent call by the Egyptian Ambassador. The conventional assumption was that Reagan would be protected by his advisers. But Mr Bundy did not have a high opinion of these. His guess was that, if Reagan won, his need for sophisticated expertise on foreign affairs could only lead him back to Dr Kissinger.

Mr Bundy had a very high opinion of Mr John Anderson who, despite his somewhat conservative fiscal views, was in his view by far the most intelligent and impressive of the three candidates. Although a rank outsider, his influence and possible performance should not be under-rated, particularly if the economic cards fell badly for the President.

The American Ambassador telephoned me this morning 'in line with the new dispensation on direct contacts with No. 10' to say that he was about to recommend to No. 10 that the Prime Minister should receive Mr George Schultz and Mr Henry Jackson (Schultz would be here on 24 June and Jackson on 3-4 July). Whatever happened in the elections, Jackson would in Mr Brewster's view continue to have an important influence on the National Security Council. If Reagan won, Schultz would be one of the more moderate of his advisers, and a call on the Prime Minister would help to advance his standing. He admitted that he was an oddly placed broker, but did not think that there was any chance of Washington being upset if Schultz were received at No. 10. He also thought that the Secretary of State might wish to see both men; I explained that he would be in Ankara during Mr Schultz's visit, but might wish to meet Mr Jackson.



(G G H Walden)

18 June 1980

cc: PS	PS/Mr Ridley	Sir A Acland	Lord Gordon Lennox
PS/LPS	PS/PUS	Lord Bridges	Mr Fergusson
PS/Mr Hurd	PS/Sir D Maitland	Mr Bullard	Planning Staff
M O'D B Alexander			NENAD

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TO PRIORITY FCO
TELEGRAM NUMBER 370 OF 30 APRIL
INFO WASHINGTON, PARIS, UKDEL NATO

MUSKIE

1. VAN WELL TOLD ME THIS MORNING THAT GENSCHER THOUGHT THE APPOINTMENT OF MUSKIE AS SECRETARY OF STATE IN SUCCESSION TO VANCE A GOOD ONE. GENSCHER HIMSELF HAD DEALINGS WITH MUSKIE WHEN HE WAS MINISTER OF THE INTERIOR AND RESPONSIBLE FOR ENVIRONMENTAL MATTERS. MUSKIE VISITED BONN ON A EUROPEAN TOUR IN 1979.
2. VAN WELL WENT ON TO SAY THAT THE ONLY THING THAT MUSKIE HAD IN COMMON WITH BRZEZINSKI WAS THAT THEY WERE BOTH OF POLISH ORIGIN. IT WOULD BE GOOD FOR THE STATE DEPARTMENT AND GOOD FOR AMERICA'S ALLIES THAT CARTER HAD CHOSEN A MAN OF POLITICAL STATURE AS SECRETARY OF STATE. MOREOVER MUSKIE WAS KNOWN FOR HIS LIBERAL VIEWS AND WOULD THEREFORE PROVIDE AN EFFECTIVE COUNTER-BALANCE TO BRZEZINSKI, WHO IS PROFOUNDLY MISTRUSTED HERE. FINALLY THE GERMANS THOUGHT THAT HIS INFLUENCE WITH CONGRESS WOULD GREATLY HELP THE CARTER ADMINISTRATION.
3. ALTOGETHER THE APPOINTMENT IS SEEN IN BONN AS A PLUS FACTOR.

WRIGHT

[COPIES SENT TO NO 10 DOWNING STREET]

F I L E S

NAD	PS/PUS
WED	SIR D MAITLAND
ECD	SIR A ACLAND
PS	MR BULLARD
PS/LPS	MR FERGUSSON
PS/MR RIDLEY	CABINET OFFICE

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TO PRIORITY F C O

TELEGRAM NUMBER 1589 OF 23 APRIL 1980

INFO SAVING EC POSTS, UKDEL NATO, BIS NEW YORK, UKMIS NEW YORK AND ALL CGS USA

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U S PRESIDENTIAL CAMPAIGN: PENNSYLVANIA

1. WITH A LITTLE OVER A MONTH TO GO BEFORE THE FINAL PRIMARIES ON 3 JUNE, YESTERDAY'S PRIMARIES IN PENNSYLVANIA WERE SEEN AS A LAST CHANCE FOR KENNEDY AND BUSH TO STEM THE TIDE RUNNING IN FAVOUR OF CARTER AND REAGAN IN THE DEMOCRATIC AND REPUBLICAN PARTIES. THE EVIDENCE OF PENNSYLVANIA IS THAT THEY HAVE FAILED TO DO SO, EVEN THOUGH KENNEDY NARROWLY DEFEATED THE PRESIDENT (HE WILL PROBABLY END UP WITH 94 DELEGATES FROM PENNSYLVANIA TO CARTER'S 91) AND BUSH DEFEATED REAGAN BY 54 PERCENT TO 45 PERCENT OF THE POPULAR VOTE.

2. THESE RESULTS KEEP KENNEDY AND BUSH ALIVE BUT REAGAN WILL PROBABLY TAKE MOST OF THE PENNSYLVANIA DELEGATES (DESPITE LOSING THE POPULARITY CONTEST) CARTER WON 60 OF THE 77 MISSOURI DELEGATES WHO WERE ALSO CHOSEN YESTERDAY. CARTER NOW HAS NEARLY TWICE AS MANY DELEGATES AS KENNEDY, WHO WOULD HAVE TO WIN 70 PERCENT OF THE VOTES IN THE REMAINING PRIMARIES TO CATCH UP.

3. INSOFAR AS THERE IS A PATTERN EMERGING IN THIS YEAR'S PRIMARIES, IT SEEMS TO BE THE GROWING DISSATISFACTION OF THE VOTERS WITH ALL THE CHOICES PRESENTED TO THEM. THIS GENERAL SENSE OF WISHING TO VOTE FOR QUOTE NONE OF THE ABOVE UNQUOTE WAS REFLECTED IN PENNSYLVANIA IN SMALL VOTES FOR ANDERSON (WHO WAS NOT ON THE BALLOT) AND BROWN (WHO HAS WITHDRAWN FROM THE RACE) AND IN THE 6 PERCENT QUOTE NO PREFERENCE UNQUOTE VOTE ON THE DEMOCRATIC SIDE.

4. DISSATISFACTION WITH CARTER AND REAGAN IS NOT, HOWEVER TURNING INTO SUPPORT FOR KENNEDY AND BUSH ON A BIG SCALE. CARTER'S PERFORMANCE IS RATED POORLY BY VOTERS, PARTICULARLY ON THE ECONOMIC ISSUES STRESSED BY KENNEDY. BUT THE QUESTION OF PERSONAL CHARACTER STILL LOOMS LARGE IN PEOPLE'S OVERALL JUDGEMENT WHEN THEY COME TO

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CAST THEIR VOTES. BUSH HAS BENEFITTED FROM CONCENTRATED PRESS CRITICISM OF REAGAN'S USE OF INACCURATE FIGURES TO MAKE WHAT ARE OFTEN PROVED TO BE FALSE CLAIMS. BUT THE REAGAN BANDWAGON ROLLS ON: IT WILL TAKE MORE THAN BUSH ALONE TO STOP IT AND HE IS THE ONLY REMAINING CHALLENGER. ANDERSON IS VIRTUALLY OUT OF THE REPUBLICAN RACE BUT IS LIKELY TO ANNOUNCE HIS CANDIDACY AS AN INDEPENDENT REPUBLICAN. ANDERSON'S WITHDRAWAL FROM THE REPUBLICAN RACE WOULD BE OF SOME HELP TO BUSH IN THE REMAINING REPUBLICAN PRIMARIES AND OF MARGINAL BENEFIT TO KENNEDY IN OPEN PRIMARIES SINCE THEY WOULD BE THE OBVIOUS RECIPIENTS OF VOTES WHICH WOULD OTHERWISE HAVE GONE TO ANDERSON. ANDERSON HIMSELF WILL BE HARD PRESSED TO PUT UP A SERIOUS CHALLENGE FOR THE PRESIDENCY. HIS REAL IMPACT COULD BE AS A QUOTE SPOILER UNQUOTE IN NOVEMBER, PROBABLY TAKING MORE VOTES FROM CARTER THAN FROM REAGAN.

FCO PSE PASS SAVING BONN BRUSSELS COPENHAGEN DUBLIN LUXEMBOURG
PARIS ROME THE HAGUE UKREP BRUSSELS UKDEL NATO

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BY BAQ
FM WASHINGTON

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TO FCO SAVING TEL NO 5 OF 29 JANUARY AND
SAVING TO ALL NATO POSTS, DUBLIN, TOKYO, MOSCOW, UKDEL NATO,
UK REP BRUSSELS, BIS NEW YORK, BOSTON

REFERENCE 011/1

US PRESIDENTIAL ELECTION CAMPAIGN: SENATOR EDWARD KENNEDY

1. Kennedy's humiliating defeat by Carter in the Iowa caucuses (my tel No 346) has plunged his campaign into severe political and financial difficulties. Current polls show him now trailing Carter in Maine (caucuses on 10 February) and New Hampshire (primary on 26 February), where Kennedy had earlier been confident of easy victories and now cannot afford to lose. In Washington on 28 January he sought to re-launch his bid for the Democratic nomination with what was billed in advance as a major speech in which he strongly criticised Carter's handling of foreign and domestic affairs.

2. Proclaiming that the crises in Iran and Afghanistan should no longer be allowed to stifle debate about the Administration's foreign policy, Kennedy criticised the "exaggerations and hyperbole" of Carter's response to the invasion of Afghanistan. The Administration had failed to respond to the Soviet coup in Afghanistan in 1978 and had ignored subsequent signs of further trouble to come; and by backing down over the Soviet combat brigade in Cuba, Carter had led the Russians to conclude that they could invade Afghanistan with impunity.

3. Responding to Carter's State of the Union address, Kennedy said that US policy towards the Persian Gulf area should be based on co-operation with regional countries, NATO and Japan; third world and Muslim opposition to Soviet aggression should be encouraged; the US naval presence in the Indian Ocean should be strengthened; the countries of the area should be strengthened against subversion by the PLO and "other Soviet surrogates"; in return, Middle East oil producers should guarantee the West secure oil supplies at reasonable prices; but nothing should be done to "barter Israel's security for oil or Muslim favours".

4. The Soviet Union must be given "reasons for hope as well as fear" in its relations with the United States. Arms control efforts should not be abandoned. US defence should be strengthened, but by enhancing conventional forces capabilities and readiness, not by excessive spending on "irrelevant" strategic systems. Describing registration for the draft as an empty symbol, Kennedy proclaimed his opposition both to registration and to re-introducing the draft: "We should not be moving towards the brink of sending a new generation of the young to die for the foreign policy failures of the old".

5. The crisis over the hostages in Tehran should never have happened - the Administration should have heeded the warnings it received of Iranian retaliation for the entry of the Shah into the US on "dubious" medical advice. Imposition of economic sanctions against Iran now would only make matters worse. The Administration should support the immediate establishment of a UN commission to investigate Iranian grievances which should start work only when all the hostages had been returned.

6. On domestic issues, Kennedy attacked Carter's policies on energy and inflation as unfair, ineffective and a betrayal of Democratic Party ideals. He reiterated his opposition to de-control of crude oil prices and called for a fair petrol rationing plan without delay. The Administration's wage and price guidelines had failed and the President should impose an immediate six-month "freeze on inflation" followed by mandatory control of wages, prices, dividends and interest rates. In an emotive peroration, Kennedy reiterated his commitment to a catalogue of liberal causes, reaffirmed his candidacy and concluded that he had "only just begun to fight".

7. Later that day Kennedy went over some of the same ground in a speech in New York to the Conference of Presidents of Major Jewish Organisations. In a clear bid for the support of the American Jewish community he accused Carter of holding "pro-Palestine positions" and attempting to coerce Israel and implied that, if re-elected, Carter would be likely to betray Israel's interests. For his part, Kennedy declared that "I know that in advocating Israel's cause I am inevitably advancing the cause of America". Also that evening a special TV statement by Kennedy was screened in New England in which he sought to explain and justify his behaviour at Chappaquiddick, but without apparently adding anything to his previous accounts of the affair.

8. So far, press attention has concentrated on the Washington speech. This was enthusiastically received by a sympathetic audience (members of the Kennedy family and campaign workers were much in evidence) and it may well put new heart into committed Kennedy supporters. But initial press reactions suggest that more will be needed to turn Kennedy's fortunes around. As one student member of the audience commented, "Teddy was blazing away with both barrels, but he was firing blanks". Observers have noted that, viewed against his own

past record, Kennedy's criticisms of the President's fiscal laxity and inadequate responses to Soviet actions are not very credible; and that beneath the hostile rhetoric, much of what he had to say about policy towards the Persian Gulf and even East/West relations differed little in substance from Administration positions. Spokesmen for the Carter/Mondale campaign have dismissed the speech as opportunistic and irresponsible and are suggesting that Kennedy's opposition to the grain embargo and registration for the draft smacks of appeasement of the Soviet Union. However, Kennedy's frankly demagogic speech and the hard hitting criticism of the President's foreign and domestic record in a Republican Party television broadcast on Sunday night suggest that, following Carter's victory in Iowa, all his challengers are taking the gloves off.

HENDERSON

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Original on:-
France : July 79

SECRET

USA : Political ^{VSA} "St"

NOTE OF THE DISCUSSION AT THE PRIME MINISTER'S LUNCH FOR PRESIDENT
GISCARD D'ESTAING ON 19 NOVEMBER AT 10 DOWNING STREET

Present:

Prime Minister

Foreign and Commonwealth Secretary

Lord President of the Council

Secretary of State for Industry

Sir Reginald Hibbert

Mr. C.A. Whitmore

President Giscard d'Estaing

Monsieur Francois-Poncet

Monsieur Giraud

HE, Monsieur Jean Sauvagnargues

Monsieur Patrick LeClerc

* * * * *

United States

Following a discussion on the prospects of the various United States Presidential candidates, in the course of which there was general agreement that Senator Kennedy was unlikely to be successful, President Giscard remarked that it would be a pity for the western world if the re-election of President Carter meant that we were deprived of what he called the United States presence. The West did not need American leadership but it did need the steadying influence of the United States. The prospects for the global balance of power in the next few years were not good. Although the Soviet Union would continue to be militarily strong they were not in a sound ideological and economic position. Their system was not a good one for the future. If the West now adopted a strong policy, it would be "on the winning side" but the present erratic United States approach was worrying. It was impossible for the West to be politically effective without an American contribution. The United Kingdom was acting boldly in Southern Africa and France was doing the same in Central Africa, but they were doing so separately.

Monsieur Francois-Poncet added that what happened in Iran might well affect President Carter's chances of re-election. It was possible that things there would knock him out of the race.

Britain and the international scene

President Giscard said that he was glad to see Mrs. Thatcher confirming the position and influence of the United Kingdom in world affairs. He welcomed the British contribution to international

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/ politics.

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3. ON INFLATION, THE RECORD SO FAR THIS YEAR HAS BEEN INTENSELY DISAPPOINTING FOR THE ADMINISTRATION. OVER THE FIRST 9 MONTHS, THE CONSUMER PRICE INDEX ROSE AT AN ANNUAL RATE OF MORE THAN 13 PERCENT IT IS TRUE THAT THERE HAVE BEEN A NUMBER OF TEMPORARY FACTORS AT WORK, ESPECIALLY THE RISE IN OIL PRICES EARLY IN THE SUMMER, BUT THE RATE OF INFLATION CANNOT BE WHOLLY EXPLAINED IN TERMS OF TEMPORARY FACTORS AND THERE SEEMS TO BE AN UNEXPLAINED ELEMENT. HOWEVER IT IS SIGNIFICANT THAT WAGE PRESSURES HAVE NOT BEEN A PRIMARY SOURCE OF INFLATION. OVER THE PAST YEAR WAGE INCREASES HAVE LAGGED BEHIND INFLATION.

4. THE ADMINISTRATION AND THE FEDERAL RESERVE STILL HOPE THAT, AS THE TEMPORARY FACTORS WORK THEMSELVES OUT, INFLATION CAN BE BROUGHT BACK INTO SINGLE FIGURES BY THE EARLY PART OF NEXT YEAR, BUT THIS IS VERY OPTIMISTIC. ALFRED KAHN, CHAIRMAN OF THE PRESIDENT'S COUNCIL ON WAGE AND PRICE STABILITY HAS JUST ADMITTED AS MUCH. ONE DANGER IS THAT WAGE EARNERS, REALISING THAT THEY HAVE SUFFERED A FALL IN REAL EARNINGS, WILL BEGIN TO INSIST ON CATCHING UP AND THAT WAGES WILL BECOME AN INFLATIONARY FORCE. THE PRESIDENT'S WAGE GUIDELINE FOR THE YEAR ENDED LAST SEPTEMBER MAY HAVE HAD SOME MODERATING INFLUENCE, BUT NO NEW GUIDELINE HAS YET TAKEN ITS PLACE. A PAY BOARD HAS BEEN APPOINTED, WITH UNION PARTICIPATION, BUT IT IS REPORTED STILL TO BE IN DISAGREEMENT ABOUT WHAT ADVICE IT SHOULD GIVE THE PRESIDENT FOR THE COMING YEAR. ANOTHER OBVIOUS DANGER IS A FURTHER RISE IN THE PRICE OF OIL, WHICH COULD EASILY PREVENT THE INFLATION RATE FROM FALLING BACK.

5. THUS, IT IS VIRTUALLY CERTAIN THAT 1980 WILL BE A BAD YEAR FOR THE ECONOMY IN TERMS OF BOTH UNEMPLOYMENT AND INFLATION SEMI COLON AND IT IS QUITE ON THE CARDS THAT IT MAY BE A NEAR-DISASTROUS ONE. EVEN THE MORE OPTIMISTIC FORECASTS ASSUME A SUBSTANTIAL RISE IN UNEMPLOYMENT AND IT IS NOW VERY OPTIMISTIC TO EXPECT INFLATION TO RETURN TO SINGLE FIGURES AT ANY RATE IN THE EARLY PART OF THE YEAR. A PESSIMISTIC BUT QUITE PLAUSIBLE VIEW IS THAT THE ECONOMY WILL MOVE INTO A FAIRLY DEEP RECESSION OR THAT THE RECESSION, IF NOT DEEP, WILL BE PROLONGED WITHOUT THE BEGINNINGS OF ANY RECOVERY IN 1980, AND THAT INFLATION WILL BE IN THE MID-TEENS. THIS WOULD MAKE 1980 THE SECOND CONSECUTIVE YEAR OF RECORD INFLATION IN THE UNITED STATES AND THE THIRD YEAR OF QUOTE DOUBLE DIGIT UNQUOTE INFLATION IN AMERICAN POST-WAR HISTORY. CONFIDENTIAL / CURRENT POLICIES

CURRENT POLICIES

6. WITH THE DETERIORATING OUTLOOK, THERE HAS RECENTLY BEEN A SHARP CHANGE IN THE MONETARY POLICY, BUT NOT IN FISCAL POLICY. THE CHANGES INTRODUCED BY THE FEDERAL RESERVE AT THE BEGINNING OF OCTOBER INVOLVED A SWITCH TO MORE DIRECT CONTROL OF BANK RESERVES, ALLOWING INTEREST RATES TO BE DETERMINED MORE FREELY BY THE MARKETS. AT THE SAME TIME THE FEDERAL RESERVE HAS SHOWN THAT IT WILL BE MORE DETERMINED IN PURSUING ITS MONEY SUPPLY TARGETS. THE EFFECT HAS BEEN MUCH HIGHER INTEREST RATES AND THIS IS POTENTIALLY AS SENSITIVE A SUBJECT HERE AS ANYWHERE ELSE. BANK PRIME RATES HAVE RISEN FROM ABOUT 12 PERCENT TO OVER 15 IN THE LAST MONTH AND MORTGAGE RATES HAVE RISEN FROM ABOUT 11 AND ONE HALF TO ABOUT 14 AND ONE HALF PERCENT. MORTGAGES ARE NOW DIFFICULT TO OBTAIN. THE NEW POLICY MEANS THAT INTEREST RATES WILL FLUCTUATE MORE AND IT IS DIFFICULT TO PREDICT THEIR LEVEL. BUT IT IS WIDELY ASSUMED THAT THEY WILL RISE FURTHER BEFORE FALLING AS RECESSION SETS IN. SOME THINK THEY MAY PEAK BY THE END OF THE YEAR, BUT MANY BELIEVE THE TURN WILL NOT COME UNTIL MID-1980. THE TIGHTENING OF MONETARY POLICY HAS ALREADY INCREASED THE CHANCES THAT THE RECESSION WILL BE A SUBSTANTIAL ONE SEMI COLON AND A CONTINUATION OF HIGH INFLATION WOULD ENCOURAGE THE FED TO HOLD TO A TOUGH POLICY. A COMBINATION OF TIGHT MONEY POLICIES AND HIGH INFLATION IN THE FIRST HALF OF 1980 COULD MAKE FOR A DEEP AND PROLONGED RECESSION.

7. FISCAL POLICY CANNOT ADJUST SO QUICKLY TO CHANGING CIRCUMSTANCES. THE BUDGET FOR FY80 (BEGINNING OCTOBER 1979), JUST APPROVED, PROVIDES FOR A FEDERAL DEFICIT OF DOLLARS 30 BN, WHICH IS WHAT THE PRESIDENT PROPOSED LAST JANUARY. CARTER HAS CLAIMED THAT IT IS AN QUOTE AUSTERE BUDGET UNQUOTE AND THE DEFICIT AT THIS LEVEL WOULD AMOUNT TO BARELY MORE THAN 1 PERCENT OF GNP, DOWN FROM 4 PERCENT THREE YEARS AGO. THE NEXT MOVE ON FISCAL POLICY WILL BE MADE WHEN THE PRESIDENT PRESENTS HIS BUDGET FOR FY81 IN JANUARY AND IT IS NOT CERTAIN AT THIS STAGE WHETHER HE WILL PROPOSE A TAX CUT TO TAKE EFFECT SOME TIME EITHER IN FY80 OR FY81 SEMI COLON AND IF SO WHETHER IT WILL BE DESIGNED ONLY TO OFF-SET THE EFFECT OF INFLATION ON THE TAX BURDEN, PARTIALLY OR WHOLLY, OR WHETHER IT WILL GO FURTHER.

THE POLITICAL IMPLICATIONS

8. AS IN OTHER COUNTRIES, INFLATION IS NOW GENERALLY THOUGHT TO BE OF GREATER CONCERN TO THE ELECTORATE THAN UNEMPLOYMENT. THIS IS NO DOUBT ONE REASON FOR THE STRENGTH OF THE QUOTE CONSERVATIVE UNQUOTE INFLUENCE IN AMERICAN POLITICS RECENTLY. THE POINT TO MAKE, HOWEVER, IS THAT UNEMPLOYMENT, ALTHOUGH HISTORICALLY HIGH, IS NOT A MAJOR POLITICAL CONCERN AT THE MOMENT AND THIS MAY WELL CHANGE AS 1980 PROCEEDS. ASSUMING THAT 1980 WILL BE A YEAR OF BOTH RISING UNEMPLOYMENT AND HIGH INFLATION, SEVERE TENSIONS WILL ARISE IN THE DEMOCRATIC PARTY, MUCH MORE THAN IN THE REPUBLICAN PARTY WHOSE CANDIDATES FOR THE PRESIDENCY AND THE CONGRESS WILL BE LESS CONCERNED ABOUT UNEMPLOYMENT AND WILL TAKE A FIRMER STAND AGAINST INFLATION.

9. IN THE DEMOCRATIC PARTY, QUESTION ARISE ABOUT THE ATTITUDES OF THE PRESIDENT, KENNEDY AND DEMOCRATIC MEMBERS OF CONGRESS.

10. CARTERS POLITICAL INSTINCTS LIE MORE IN THE CONSERVATIVE DIRECTION THAN KENNEDY'S. CONTRASTING HIS APPROACH WITH KENNEDY'S, HE SAID RECENTLY: QUOTE I BELIEVE IN TIGHT MANAGEMENT... IN MAKING THE EXISTING PROGRAMMES EFFICIENT... IN SAVING MONEY... IN TRYING TO HAVE FISCAL RESPONSIBILITY UNQUOTE. HIS CLAIM THAT BEATING INFLATION IS HIS ADMINISTRATION'S NUMBER ONE PRIORITY IS NO DOUBT SINCERE. BUT HE IS NO LESS CONSCIOUS OF THE NEED TO PROTECT HIS POSITION WITH HIS NATURAL CONSTITUENCY OF BLACKS AND OTHER ETHNIC GROUPS, THE UNDER PRIVILEGED AND ORGANISED LABOUR AGAINST THE STRONG APPEAL WHICH KENNEDY WILL MAKE TO THEM. THE AMBIGUITY OF HIS POSITION IS REFLECTED IN HIS RECENT PROMISE TO AN AUDIENCE OF CONSTRUCTION WORKERS NOT TO QUOTE 'FIGHT INFLATION WITH YOUR JOBS' UNQUOTE.

11. THE CARTER ADMINISTRATION HAS ENDORSED THE RECENT FED MEASURES, BUT WITH A DEGREE OF DETACHMENT SUGGESTING THAT THEY WERE GRATEFUL NOT TO HAVE TO ASSUME THE RESPONSIBILITY FOR SUCH MEASURES THEMSELVES. IN THE MAIN AREA FOR WHICH THE PRESIDENT IS RESPONSIBLE,

NAMELY FISCAL POLICY, NO ONE EXPECTS ANY POLICY MOVE BEFORE THE BUDGET IN JANUARY: AND THE PRESIDENT COULD THEN LEAVE ROOM FOR HIMSELF TO PROPOSE CHANGES LATER IN THE YEAR, IF HE FINDS HIMSELF DOING POORLY IN THE EARLY KEY PRIMARIES, AND IF UNEMPLOYMENT IS RISING AT THE TIME, HE COULD MAKE SOME MOVE, SUCH AS A TAX CUT PROPOSAL, EARLY IN THE SPRING. BUT MUCH WILL DEPEND ON HIS READING OF THE REASONS FOR A POOR POLITICAL PERFORMANCE. IF HE AND HIS ADVISERS TAKE THE VIEW THAT INFLATION IS THE MORE IMPORTANT REASON, THIS WOULD POINT TO DIFFERENT CONCLUSIONS SEMI COLON BUT THERE ARE NO POLICIES AVAILABLE TO HIM WHICH CAN BE EXPECTED TO BRING THE RATE OF INFLATION DOWN QUICKLY.

12. KENNEDY WILL FACE SIMILAR DILEMMAS AND WILL HAVE TO DECIDE IN THE COMING MONTHS WHETHER TO MAKE A DETERMINED EFFORT TO MODIFY HIS IMAGE AS A BIG SPENDING LIBERAL AND HOW CREDIBLY HE CAN DO THIS. KENNEDY HAS CHOSEN TO CHALLENGE THE PRESIDENT ON HIS ECONOMIC POLICIES, BUT HE HAS BEEN CAREFUL SO FAR TO COUCH HIS CRITICISM IN GENERAL TERMS AND TO PRESENT THE ISSUE AS A FAILURE OF LEADERSHIP. HE HAS ATTACKED THE PRESIDENT ON INFLATION BUT HIS ONLY SPECIFIC PROPOSAL HAS BEEN TO CONTINUE TO CONTROL OIL PRICES. HE WILL BE UNDER PRESSURE TO BE MORE SPECIFIC AS THE CAMPAIGN HEATS UP AND HE IS ALREADY VULNERABLE TO CHARGES OF INCONSISTENCY ON ECONOMIC ISSUES (E.G. ADVOCATING EXPANDED SOCIAL SPENDING BUT VOTING FOR BUDGET CUTS). SOME OF THE ACADEMIC ECONOMISTS FROM WHOM KENNEDY WILL TAKE ADVICE ARE NOW CONVINCED OF THE NEED FOR CONSERVATIVE FISCAL AND MONETARY POLICIES AND KENNEDY WILL PRESUMABLY BE ALERT TO THE DANGER OF BEING REGARDED AS INDIFFERENT TO INFLATION. ON BALANCE HOWEVER KENNEDY WILL PROBABLY CONTINUE TO STAND SOMEWHAT TO THE QUOTE LEFT UNQUOTE OF CARTER ON ECONOMIC ISSUES GENERALLY. THIS IS CERTAINLY THE IMPRESSION GIVEN BY HIS STATEMENT OF 7TH NOVEMBER ANNOUNCING HIS CANDIDACY.

13. IT IS HARD TO SAY HOW INFLATION WILL AFFECT THE BATTLE BETWEEN KENNEDY AND CARTER, AS THE INCUMBENT, CARTER MUST EXPECT TO BE BLAMED FOR THE CURRENT RATE OF INFLATION BUT IT IS AN OPEN QUESTION WHETHER KENNEDY WILL BE ABLE TO PERSUADE VOTERS THAT HE HAS ANY MORE EFFECTIVE ANSWER TO IT.

14. THE TENSIONS WITHIN THE DEMOCRATIC PARTY ON THESE ISSUES WILL ALSO BE SEEN IN THE CONGRESS WHERE THE MAJORITY WILL PROBABLY FIND ITSELF CONFUSED AND DIVIDED IN THE COMING MONTHS. SOME DEMOCRATS ARE VERY READY TO RESPOND TO A RISE IN UNEMPLOYMENT QUICKLY BY SUPPORTING TAX CUTS AND PERHAPS JOB CREATION PROGRAMMES. BUT THERE ARE OTHER FORCES AT WORK TOO. A SIGN OF THE QUOTE CONSERVATIVE UNQUOTE INFLUENCE AT WORK IN THE DEMOCRATIC MAJORITY HAS BEEN THAT NEITHER HOUSE OF CONGRESS HAS BEEN WILLING TO VOTE FOR A BUDGET DEFICIT EXCEEDING THE ONE THE PRESIDENT PROPOSED. WITH THE DEMOCRATIC MAJORITY DIVIDED IT IS NOT TO BE ASSUMED THAT THE MAJORITY OF THE CONGRESS AS A WHOLE WILL AGREE QUICKLY ON MEASURES TO COUNTER RISING UNEMPLOYMENT.

15. FOR REPUBLICANS, INFLATION WILL CERTAINLY BE A BIG ISSUE IN THE ELECTION, PERHAPS THE MAJOR ISSUE, AND THEY WILL NATURALLY BLAME IT ON THE DEMOCRATIC ADMINISTRATION AND CONGRESS. THIS APPROACH CHIMES IN WITH THEIR GENERAL DESIRE, ON OTHER GROUNDS, TO SEE BOTH GOVERNMENT EXPENDITURE AND TAXES REDUCED, (ALTHOUGH THEY WILL WANT TO INCREASE DEFENCE EXPENDITURE) THERE IS A MINORITY WHICH BELIEVES IN CUTTING TAX REGARDLESS OF LEVELS OF EXPENDITURE, BUT THE MAIN REPUBLICAN CASE WILL BE FOR CUTTING BOTH, AND FOR ACCEPTING HIGH INTEREST RATES AND ANYTHING ELSE WHICH WILL HELP TO BEAT INFLATION. THERE ARE UNLIKELY TO BE SIGNIFICANT DIFFERENCES BETWEEN THE MAIN REPUBLICAN CANDIDATES ON THESE ISSUES, AND THE CHOICE OF A NOMINEE BY THE REPUBLICANS WILL NOT BE SIGNIFICANTLY INFLUENCED BY THEM. THERE IS THEREFORE LESS TO BE SAID ABOUT THE REPUBLICAN SIDE AT THIS STAGE, BUT, TO THE EXTENT THAT THE ELECTORATE IS PRIMARILY CONCERNED ABOUT INFLATION AND INFLATION REMAINS HIGH THIS MUST TEND TO STRENGTHEN THE HAND OF ANY REPUBLICAN CANDIDATE FOR THE WHITE HOUSE AND OF CONGRESSIONAL CANDIDATES TOO. THE DIFFICULT QUESTION TO JUDGE IS HOW FAR THE AMBIGUITIES AND CONFUSION IN THE THINKING OF THE DEMOCRATIC PARTY REFLECT AMBIGUITIES AND CONFUSION IN THE MIND OF MOST OF THE ELECTORATE.

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16. AT THIS STAGE IT IS HARD TO AVOID THE CONCLUSION THAT THERE IS IN THIS COUNTRY SO FAR NO OVERWHELMING DETERMINATION TO DEAL WITH INFLATION EFFECTIVELY. AMERICA IS BEWILDERED AND ANGRY ABOUT THE INFLATION IT IS SUFFERING BUT THERE IS NO CONSENSUS ABOUT WHAT SHOULD BE DONE, AND MANY BELIEVE THAT INFLATION IS BEYOND THE POWER OF POLITICIANS TO CONTROL. AT THE SAME TIME THERE ARE SIGNS THAT AMERICANS ARE GETTING MORE USED TO HIGH INFLATION. THERE IS LESS HORROR AND INDIGNATION ABOUT DOUBLE DIGIT INFLATION NOW THAN WHEN AMERICA FIRST EXPERIENCED IT IN 1974. THE ADMINISTRATION SAYS THAT IT IS TREATING INFLATION AS ENEMY NUMBER ONE. BUT IT DOES NOT DO SO UNAMBIGUOUSLY. A CASE COULD BE MADE OUT FOR TOUGHER FISCAL POLICIES THAN AT PRESENT, COMBINED WITH CONTINUED FIRM MONETARY POLICIES FOR A LONG PERIOD. A REALLY DETERMINED EFFORT TO BEAT INFLATION WOULD ALSO HAVE TO INVOLVE OTHER THINGS, (INCLUDING PERHAPS A MUCH MORE SERIOUS EFFORT TO REDUCE THE IMPACT OF GOVERNMENT REGULATION ON AMERICAN BUSINESS). 1980 MAY HOLD SURPRISES, BUT AT THE MOMENT IT DOES NOT SEEM LIKELY THAT THE POLITICAL DEBATE NEXT YEAR WILL PRODUCE A STRONG CONSENSUS ON HOW TO DEAL WITH AMERICA'S MOST SERIOUS ECONOMIC PROBLEM.

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Mr. Eliot Janeway called on the Prime Minister at 1500 hours on Monday 24 September. They had a wide-ranging discussion covering the American and international political scenes. I did not take a detailed note; but the following points which Mr. Janeway made are worth recording:

(i) He said that Edward Kennedy would most likely win the Democratic nomination next year. It seemed almost certain now that Kennedy would run in the Primaries, and assuming he did so, he should beat Carter easily in them. Once nominated, there was no Republican contender who would be a match for him. Kennedy was, in his view, shrewd and hard, and the most effective public speaker in America. If elected, he would be hawkish on Russia, the PLO and OPEC - and generally, a Kennedy Presidency would be of advantage to the UK. He would probably stay clear of the Rhodesia issue over the coming months because of his need to "go south" for a Vice President.

(ii) Mr. Janeway gave his views on the prospects of the likely Republican contenders - Reagan, Connolly, Howard Baker and possibly Ford. Connolly had the support of many board-rooms, but very little grass-roots support in the Party - and was therefore unlikely to pick up many votes in the Primaries. Howard Baker was a very attractive candidate, but his chances of winning the nomination were slim. Reagan was the strongest contender for the nomination but, in a fight against Kennedy for the Presidency, he would be massacred - rather as Goldwater had been in 1964. Ford would not run in the Primaries, but if it looked as if a stalemate was developing between Howard Baker and Reagan, he might well allow himself to be drafted.

(iii) Mr. Janeway went on to say that, although President Carter was likely to be beaten by Kennedy in the Primaries,

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this would not prevent him from still trying to run for re-election. He foresaw Carter running on a Democratic splinter-ticket: and he would achieve the necessary support for this by provoking a national security crisis to show that he was firm and steady (in contrast to Kennedy's alleged weakness under pressure ever since the Chapaquidick incident). This crisis might be in Latin America, the Middle East or Africa.

(iv) President Carter's designation of the PLO as a Civil Rights organisation had been one of the Administration's worse mistakes. This had been bad for President Sadat, and it had strengthened the PLO generally. The PLO was now the "Fourth International", and they were operating in many areas. They were, for example, in Mr. Janeway's view, responsible for the recent shooting in San Sebastian. There was now an unholy alliance between American blacks and the PLO, which was having a baneful effect on American foreign policy generally. But Kennedy, if elected President, would be strong enough to break away from this.

(v) Mr. Janeway said that he hoped that the Rhodesia Conference would succeed. This was not just for the sake of Southern Africa, but also to re-establish Britain's role in the world. A successful outcome would do much to improve Britain's position internationally and to "re-establish a London presence in NATO".

(vi) While a political settlement in Rhodesia was important, an equally pressing issue in Southern Africa was the deteriorating food situation. US agricultural technology was desperately needed, but it was difficult for the USA to provide this assistance direct to South Africa. Mr. Janeway suggested that, if the Conference succeeded, it might be possible for the UK to act as broker and channel this assistance to South Africa from the USA.

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TO PRIORITY F C O

TEL NO 2657 OF 12 SEPTEMBER 1979

INFO SAVING TO ALL EEC POSTS, UKDEL NATO.

Prime Minister

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MY TEL NO 2605: SENATOR EDWARD KENNEDY.

1. SENATOR KENNEDY YESTERDAY SAID IN VARIOUS INTERVIEWS THAT (I) HE HAD BEEN QUOTE ASKED TO GIVE CONSIDERATION TO CANDIDACY FOR THE PRESIDENCY UNQUOTE BY SEVERAL DEMOCRATIC SENATORS UP FOR RE-ELECTION IN 1980 (AND FEARFUL OF THEIR CHANCES WITH CARTER HEADING THE DEMOCRATIC TICKET):

(II) HE HAD TOLD THESE SENATORS, AS HE HAD TOLD THE PRESIDENT AT A PRIVATE LUNCH MEETING AT THE WHITE HOUSE ON 7 SEPTEMBER THAT HE HAD NOT RULED OUT THE POSSIBILITY OF RUNNING.

(III) HIS DECISION, WHICH HE WOULD PROBABLY ANNOUNCE TOWARDS THE END OF THE YEAR, WOULD BE BASED ON HIS ASSESSMENT OF THE PRESIDENT'S HANDLING OF THE ECONOMY OVER THE NEXT FEW MONTHS AND OF THE AMERICAN PUBLIC'S PERCEPTION OF QUOTE WHETHER THINGS WERE GETTING BETTER UNQUOTE AND

(IV) HE EXPECTED QUOTE A HARD-FOUGHT BATTLE BOTH FOR THE NOMINATION AND THE ELECTION UNQUOTE.

2. THIS IS A SIGNIFICANT DEPARTURE FROM THE LINE HE HAS TAKEN UP TO NOW THAT HE EXPECTED THE PRESIDENT TO BE RE-NOMINATED AND RE-ELECTED AND THAT HE EXPECTED TO SUPPORT HIM. IT IS NOW WIDELY BELIEVED THAT KENNEDY WILL RUN, BUT THE RISK OF SPLITTING THE DEMOCRATIC PARTY MUST STILL WEIGH HEAVILY IN KENNEDY'S CALCULATIONS. THERE HAS BEEN SPECULATION THAT HIS STRATEGY MAY BE TO PERSUADE CARTER THAT THE BEST HOPE FOR DEMOCRATIC UNITY AND FOR A SUCCESSFUL DEMOCRATIC CANDIDACY IN 1980 WOULD BE FOR THE PRESIDENT TO ANNOUNCE THAT HE WILL NOT SEEK RE-NOMINATION, THUS LEAVING THE FIELD OPEN TO KENNEDY. BUT THERE HAVE BEEN NO SIGNS THAT CARTER IS PREPARED TO CONTEMPLATE THIS. (IT WOULD INDEED BE WHOLLY OUT OF CHARACTER): AND THERE ARE REPORTS THAT THREE WEEKS

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AGO CARTER PASSED A PRIVATE MESSAGE TO KENNEDY THAT HE INTENDED TO FIGHT FOR THE NOMINATION QUOTE TO THE LAST DELEGATE UNQUOTE - I. E. THAT HE WOULD NOT WITHDRAW IN THE FACE OF POSSIBLE SETBACKS IN EARLY PRIMARIES.

FCO PASS SAVING BONN, BRUSSELS, COPENHAGEN, DUBLIN, LUXEMBOURG, PARIS, ROME, THE HAGUE, UKREP BRUSSELS, UKDEL NATO.

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TO ROUTINE F C O

TELEGRAM NUMBER 2335 OF 16 AUGUST

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Prime Minister

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MY TELNO 2327: PRESIDENT CARTER AND ANDREW YOUNG'S RESIGNATION.

1. THE CLOSE PERSONAL AND POLITICAL BOND BETWEEN YOUNG, CARTER AND HIS GEORGIA INNER CIRCLE HAD PROTECTED YOUNG ON PREVIOUS OCCASIONS WHEN HE HAD MADE ILL-CONSIDERED REMARKS AND HAD INTENSELY IRRITATED AND EMBARRASSED VANCE. SO THE WHITE HOUSE SPOKESMAN HAD TEARS IN HIS EYES WHEN HE ANNOUNCED YOUNG'S RESIGNATION YESTERDAY.

2. YOUNG CLAIMED AFTERWARDS THAT HE COULD HAVE STAYED ON HAD HE UNDERTAKEN NOT TO DO IT AGAIN. BUT THE PRESSURE BUILDING UP FOR HIS DISMISSAL THIS WEEK CLEARLY PROVED IRRESISTIBLE. IN ADDITION TO STRAUSS, SENATE MAJORITY LEADER ROBERT BYRD PUBLICLY DEMANDED HIS REMOVAL TO A LESS SENSITIVE JOB. HIS PROMPT RESIGNATION WAS THE SOLUTION CALCULATED TO DO LEAST DAMAGE TO CARTER PERSONALLY: IT LIMITS THE SCOPE FOR JEWISH CRITICISM (AS COMPARED WITH MAINTAINING HIM IN THE UN JOB) AND REDUCES THE DAMAGE TO CARTER AMONG BLACK VOTERS (AS COMPARED WITH DISMISSING YOUNG).

3. BUT IT IS A FURTHER POLITICAL KNOCK FOR CARTER AT LEAST IN THE SHORTER TERM. BLACK LEADERS HAVE COMPLAINED BITTERLY ABOUT YOUNG'S DEPARTURE AND SAY IT HAS EXACERBATED RELATIONS BETWEEN THE BLACK AND JEWISH COMMUNITIES. THE CARTER ADMINISTRATION HAS YET TO RECOVER FROM THE UPHEAVALS OF JULY (MY TELNO 2192). EARLIER THIS WEEK GRIFFIN BELL'S PARTING CRITICISMS OF CARTER'S PERFORMANCE (COUPLED WITH THE REMARK THAT HE WAS NOW SET ON THE RIGHT ROAD) WERE A FURTHER REMINDER OF THE RECENT POLITICAL DAMAGE THE ADMINISTRATION SUFFERED. THE LATEST OPINION POLLS RECORD THAT THE PRESIDENT (WHO LEAVES ON HOLIDAY TOMORROW) HAS STILL MADE NO DETECTABLE RECOVERY DESPITE HIS CAMPAIGNING IN KENTUCKY AND BALTIMORE. IN THE LONGER TERM IT COULD PROVE A SOURCE OF WEAKNESS TO CARTER IN THE PRIMARIES, THROUGH BLACK VOTERS STAYING AT HOME, OR ADDING TO THE MOVEMENT FOR A KENNEDY CANDIDACY. YOUNG HAS HOWEVER SAID HE WILL CAMPAIGN FOR CARTER.

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4. YOUNG'S OWN POLITICAL POSITION, HOWEVER, HAS PROBABLY BEEN ENHANCED. HE IS UNREPENTENT AND SAYS WHAT HE DID WAS IN THE NATIONAL INTEREST. HE MAY WELL HAVE CONSOLIDATED HIS LEADERSHIP OF THE BLACK COMMUNITY, WHICH WAS PREVIOUSLY EQUIVOCAL ABOUT HIM. SHOULD YOUNG CHOOSE TO RUN FOR OFFICE (E.G. AS SENATOR FROM GEORGIA OR MAYOR OF ATLANTA) HE WILL BE OFF TO A HEAD START.

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TO PRIORITY F C O

TELEGRAM NUMBER 2122 OF 30 JULY

US GOVERNMENT.

1. PRESIDENT CARTER'S NOMINATION ON 27 JULY OF MOON LANDRIEU, FORMER MAYOR OF NEW ORLEANS, AS SECRETARY OF HOUSING AND URBAN DEVELOPMENT, AND NEIL GOLDSCHMIDT, MAYOR OF PORTLAND, OREGON, AS SECRETARY OF TRANSPORTATION COMPLETED THE CABINET RESHUFFLE (ALTHOUGH FURTHER CHANGES ARE EXPECTED AT SUB-CABINET LEVEL).

2. THE SENATE LAST WEEK CONFIRMED THE APPOINTMENTS OF MRS PATRICIA HARRIS AS SECRETARY OF HEALTH, EDUCATION AND WELFARE, AND W GRAHAM CLAYTOR AS DEPUTY SECRETARY OF DEFENSE. CLAYTOR WILL REMAIN IN CHARGE OF THE DEPARTMENT OF TRANSPORTATION ON A TEMPORARY BASIS, HOWEVER, PENDING THE CONFIRMATION OF MR GOLDSCHMIDT BY THE SENATE.

3. SENATE CONFIRMATION PROCEEDINGS HAVE BEGUN FOR CHARLES DUNCAN (ENERGY), G WILLIAM MILLER (TREASURY) AND BENJAMIN CIVILETTI (ATTORNEY GENERAL), AND IT IS HOPED TO COMPLETE THESE CONFIRMATIONS BEFORE THE SENATE GOES INTO RECESS, PROBABLY ON 4 AUGUST. ANY OUTSTANDING NOMINATIONS, INCLUDING THOSE OF LANDRIEU AND GOLDSCHMIDT, WILL HAVE TO AWAIT CONFIRMATION WHEN THE SENATE RETURNS IN SEPTEMBER.

4. ASSUMING ALL THE NEW NOMINEES ARE CONFIRMED, PRESIDENT CARTER'S RECONSTITUTED CABINET WILL BE AS FOLLOWS:-

CYRUS R VANCE	SECRETARY OF STATE
HAROLD BROWN	DEFENSE
G WILLIAM MILLER	TREASURY
CHARLES W DUNCAN JR	ENERGY
MRS JUANITA M KREPS	COMMERCE
BENJAMIN R CIVILETTI	ATTORNEY GENERAL
NEIL E GOLDSCHMIDT	TRANSPORTATION
ROBERT S BERGLAND	AGRICULTURE
CECIL B ANDRUS	INTERIOR
MRS PATRICIA R HARRIS	HEALTH, EDUCATION AND WELFARE
MOON LANDRIEU	HOUSING AND URBAN DEVELOPMENT
F RAY MARSHALL	LABOUR

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5. CHARLES L SCHULTZE (CHAIRMAN OF THE COUNCIL OF ECONOMIC ADVISERS),
ZBIGNIEW BREZINSKI (ASSISTANT FOR NATIONAL SECURITY),
JAMES MCINTYRE (DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET, AND
AMBASSADORS ROBERT STRAUSS (MIDDLE EAST AND TRADE) AND ANDREW
YOUNG (UN) WILL ALSO CONTINUE TO HOLD CABINET RANK.
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Prime Minister

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TO PRIORITY FOREIGN AND COMMONWEALTH OFFICE
TELEGRAM NUMBER 2006 OF 20 JULY 1979=
MY TELNO 2001: US POLITICAL SCENE.

1. BRZEZINSKI HAS TOLD ME ONE OR TWO THINGS ABOUT THE ODD EVENTS OF THE LAST FEW DAYS. HE REALISED THAT THE CONSIDERABLE STATE OF UNCERTAINTY AROUSED BY THE RESIGNATION OF THE WHOLE CABINET AND THE DELAY IN FILLING THE POSTS AGAIN HAS TAKEN SOME OF THE GILT OFF THE GINGERBREAD OF THE PRESIDENT'S LAST SUNDAY'S BROADCAST. BUT THE WHOLE EPISODE WAS MORE A MATTER OF MIS-HANDLING THAN OF INTENTION TO CREATE A CRISIS.

2. AT LAST TUESDAY'S CABINET MEETING THE PRESIDENT SAID IN GENERAL TERMS THAT HE WANTED TO MAKE ONE OR TWO CHANGES IN HIS CABINET AND WHITE HOUSE STAFF, TO WHICH VANCE SAID THAT HE THOUGHT IT MIGHT HELP THE PRESIDENT IF HE COULD ASSUME THAT ALL MEMBERS OF THE CABINET WERE READY TO PLACE THEIR OFFICES AT HIS DISPOSAL. NOBODY CHALLENGED THIS BUT NOR, ACCORDING TO BRZEZINSKI, WAS IT ASSUMED ROUND THE TABLE THAT ALL MEMBERS HAD RESIGNED. THE CRITICAL POINT THEN OCCURRED AROUND 4 PM WHEN THE PRESIDENT'S PRESS SECRETARY JODY POWELL ANNOUNCED THAT THE PRESIDENT HAD ASKED FOR THE RESIGNATION OF ALL MEMBERS OF THE CABINET AND MANY OF THE ADMINISTRATIVE STAFF AT THE WHITE HOUSE.

3. BRZEZINSKI BECAME AWARE QUITE SOON THAT THIS DRAMATIC PIECE OF NEWS WAS LIKELY TO CREATE CONSIDERABLE UNCERTAINTY IN THE OUTSIDE WORLD, LET ALONE WITHIN THE UNITED STATES. HE THEREFORE ARRANGED THAT BOTH THE SECRETARY OF STATE AND THE SECRETARY FOR DEFENCE, BROWN AND HE SHOULD BE REAFFIRMED IN THEIR OFFICES.

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4. BRZEZINSKI MADE NO ATTEMPT TO CONCEAL THE INCREASED DOMINANCE OF THE GEORGIAN MAFIA IN THE WHITE HOUSE, PARTICULARLY WITH THE APPOINTMENT OF THE NEW CHIEF OF STAFF HAMILTON JORDAN. THE EXTRAORDINARY PROCEDURE OF EVALUATION REPORTING ON TOP LEVELS OF THE ADMINISTRATION, WHICH HAS PRODUCED MIRTH AND WONDERMENT IN NON-GEORGIAN CIRCLES IN WASHINGTON, WAS JORDAN'S BRAINWAVE. HE WOULD BE COLLATING ALL THE ANSWERS ON THE QUALITIES OF CABINET MINISTERS AND THEIR SENIOR OFFICIALS BUT BRZEZINSKI'S IMAGINATION COULD NOT EXTEND TO SAYING WHAT ON EARTH HE WOULD DO WITH THE RESULTS. (WE HAVE HEARD THAT VANCE, HAVING BEEN CONFIRMED IN OFFICE, TOLD HIS SENIOR STAFF THAT HE WOULD DECLINE TO RETURN THE FORMS).

5. JUDGED AT THE MOMENT IT LOOKS VERY MUCH AS THOUGH THIS EPISODE OF THE RESIGNATIONS HAS ADDED TO THE LACK OF CONFIDENCE IN CARTER'S ADMINISTRATION AND MOREOVER UNDONE MUCH OF THE GOOD THAT THE BROADCAST OF LAST SUNDAY MAY HAVE ACHIEVED. THIS IS CERTAINLY THE GENERAL VIEW IN CONGRESS AND IN TODAY'S EAST COAST PRESS.

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TO IMMEDIATE F C O

TELEGRAM NUMBER 1973 OF 18 JULY 1979.

MY TELNO 1972. U S CABINET RESIGNATIONS.

1. WE LEARNED LATER THIS EVENING THAT CARTER HAS REFUSED THE OFFERS OF RESIGNATION OF VANCE, HAROLD BROWN AND BRZEZINSKY, AND HAS CONFIRMED THESE THREE IN OFFICE. ALL THE OTHER OFFERS OF RESIGNATION ARE OUTSTANDING.

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TO IMMEDIATE FCO

TELEGRAM NO 1972 OF 17 JULY.

PRESIDENT CARTER.

THIS MORNING PRESIDENT CARTER MET WITH HIS CABINET AND WITH SENIOR WHITE HOUSE STAFF. IT WAS SUBSEQUENTLY ANNOUNCED THAT ALL HAD OFFERED THEIR RESIGNATIONS WHICH THE PRESIDENT WOULD CONSIDER QUOTE CAREFULLY AND EXPEDITIOUSLY UNQUOTE.

2. THERE HAS BEEN SPECULATION FOR SOME TIME THAT, FOLLOWING CARTER'S SOJOURN AT CAMP DAVID, THERE WOULD BE CABINET CHANGES AND SOME RE-SHUFFLING OF SENIOR WHITE HOUSE ADVISERS. TODAY'S RESIGNATIONS CLEAR THE WAY FOR THIS. BUT THERE IS AS YET NO HARD INFORMATION ABOUT THE EXTENT OF THE CHANGES OR THE PERSONALITIES INVOLVED.

HENDERSON

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CONFIDENTIAL

FM WASHINGTON 180030Z JULY 79

TO PRIORITY FCO

TELEGRAM NUMBER 1971 OF 17 JULY

INFO UKREP BRUSSELS, OECD, PARIS, BONN, TOKYO, ROME

INFO SAVING OTHER EEC POSTS, UKDEL NATO AND ALL U.S. POSTS.

MY 2 IPTS: PRESIDENT CARTER'S SPEECHES.

1. THESE SPEECHES, AT THE CULMINATION OF TEN DAYS OF SOUL-SEARCHING RETREAT, SHOW CARTER'S ALARM AT THE SHARP DECLINE OF HIS POLITICAL STANDING AND HIS FRUSTRATION AT HIS DIMINISHING COMMAND OF PUBLIC ATTENTION ON ENERGY AND RELATED ISSUES, AND AT THE PERSISTENT PARALYSIS IN CONGRESS ON THIS FRONT. UNDERLYING ALL THIS IS HIS GENUINE PRE-OCCUPATION WITH THE DEEPER CRISIS OF POPULAR AND INSTITUTIONAL CONFIDENCE AFFLICTING CONTEMPORARY AMERICA, WHICH HE IDENTIFIED IN HIS 1976 CAMPAIGN AND FROM WHICH HE HAS NOT BEEN ABLE TO LEAD THE COUNTRY.

2. THE WHOLE EXERCISE MARKS A STRONG EFFORT TO REVERSE HIS OWN POLITICAL DECLINE, AND TO RALLY THE COUNTRY AND COMMUNICATE HIS CONCERN AT THE PERILS OF CONTINUING TO DRIFT. THE CAREFULLY ORCHESTRATED BUILD-UP TO HIS TELEVISION ADDRESS ENSURED THAT CARTER CAPTURED PUBLIC ATTENTION, AT LEAST FOR THE TIME BEING (PRELIMINARY FIGURES SUGGEST AN AUDIENCE OF 60 MILLION AS AGAINST 30 MILLION FOR SOME OF HIS PREVIOUS ENERGY SPEECHES). BUT BY RAISING EXPECTATIONS HE ALSO RAISED THE RISK OF FAILING TO FULFIL THEM.

3. NOT A NATURAL ORATOR, CARTER SPOKE STRONGLY, WITH EVIDENT CONVICTION. AT THE SAME TIME, HE RETURNED TO POPULIST THEMES WHICH SERVED HIM WELL IN THE 1976 CAMPAIGN, NOTABLY ATTACKING WASHINGTON FOR ITS REMOTENESS FROM THE ASPIRATIONS OF THE PEOPLE, AND APPEALING TO THE INNATE GOODNESS OF AMERICAN PEOPLE. CARTER'S AUDIENCE, PARTICULARLY MIDDLE AMERICA, MAY BE MORE RECEPTIVE TO SUCH SERMONS THAN EUROPEANS WOULD BE. ENIGMATIC AND ELUSIVE AS CARTER STILL SEEMS TO REMAIN TO MANY AMERICANS, HE RESORTED TO HIS ABILITY TO COMMUNICATE DIRECTLY WITH THE MAN IN THE STREET, THOUGH AT THE EXPENSE OF ADMITTING CRITICISM OF HIS ADMINISTRATION.

4. INITIAL REACTIONS HAVE BEEN MIXED. THE NEW YORK TIMES HAS CRITICAL LEADER TODAY SAYING THAT THE PRESIDENT HAS NOT REALLY TACKLED THE ENERGY PROBLEM: HE HAS NOT ASKED FOR THE IMMEDIATE SACRIFICE THAT THE CRISIS DEMANDS. BUT OTHER EAST COAST EDITORIALS AND COMMENTATORS, INCLUDING THE WASHINGTON POST, HAVE COMMENDED CARTER FOR TRYING TO ADDRESS UNDERLYING CONCERNS OF THE COUNTRY, FOR AT LEAST PARTIALLY AND IMPLICITLY CONCEDED SHORTCOMINGS OF HIS OWN ADMINISTRATION AND FOR SEEKING AGAIN TO RALLY THE COUNTRY BEHIND AN ENERGY POLICY. CONGRESSIONAL REACTIONS HAVE BEEN BROADLY SIMILAR, THOUGH MORE DIVIDED ON PARTISAN LINES. WHILE THERE IS WIDESPREAD AGREEMENT THAT CARTER HAS FLINCHED FROM TOUGH SHORT-TERM DECISIONS, THERE IS SOME DISPOSITION IN EDITORIAL AND POLITICAL COMMENT TO GIVE HIM THE BENEFIT OF THE DOUBT FOR TAKING AT LEAST AN INITIAL STEP OR TWO IN THE DIRECTION OF TACKLING THE LONGER RANGE PROBLEMS.

5. CARTER THEREFORE SEEMS TO HAVE MADE AT LEAST A SHORT-TERM AND MODEST RECOVERY IN HIS GENERAL PUBLIC STANDING (THE INSTANT OPINION POLLS RECORD A 9 POINT RISE, ADMITTEDLY FROM THE PERILOUS BASE LINE OF THE LOW 20S). BUT BRINGING THIS PROGRAMME TO FULFILMENT WILL REQUIRE SUSTAINED FOLLOW-THROUGH WHICH, ON PAST FORM, THE ADMINISTRATION WILL FIND EXTREMELY DIFFICULT. SO IT IS TOO EARLY TO SAY WHETHER CARTER CAN TRANSLATE THE MODEST IMMEDIATE POLITICAL GAINS OF HIS PUBLIC APPEARANCES THIS WEEK INTO EFFECTIVE CONTROL OF THE LEVERS OF POWER WHICH HE HIMSELF VIRTUALLY CONCEDES HAS ELUDED HIM UP TO NOW.

FCO PASS SAVING BRUSSELS COPENHAGEN DUBLIN LUXEMBOURG
THE HAGUE UKDEL NATO.

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FM WASHINGTON 180015Z JULY 79

TO PRIORITY F C O

TEL NO 1969 OF 17 JULY

INFO UKREP BRUSSELS, UKREP OECD, PARIS, BONN, TOKYO, OTTAWA, ROME
INFO SAVING OTHER EEC POSTS UKDEL NATO AND ALL CONSUL GENERALS
IN THE UNITED STATES.

PRESIDENT CARTER'S SPEECHES.

1. IN HIS NATION-WIDE TELEVISION ADDRESS ON 15 JULY AND IN
SPEECHES IN KANSAS CITY AND DETROIT NEXT DAY, PRESIDENT CARTER
SPOKE OF THE POLITICAL AND SPIRITUAL MALAISE AFFLICTING THE NATION,
A CRISIS OF CONFIDENCE WHICH, HE SAID, POSED A FUNDAMENTAL THREAT
TO AMERICAN DEMOCRACY. MY TWO IFT'S SUMMARISE HIS ENERGY POLICY AND
COMMENT ON INITIAL REACTIONS HERE TO THESE SPEECHES.

2. ILLUSTRATING HIS THEME WITH COMMENTS MADE BY VISITORS TO CAMP
DAVID, CARTER SAID THAT TRADITIONAL AMERICAN VALUES AND IDEALS WERE
GIVING WAY TO THE WORSHIP OF SELFINDULGENCE AND CONSUMPTION. FOR
THE FIRST TIME, A MAJORITY OF AMERICANS WERE PESSIMISTIC ABOUT
THE FUTURE: THEIR WILLINGNESS TO SAVE WAS THE LOWEST IN THE WEST:
THEIR PRODUCTIVITY WAS DECLINING: TWO THIRDS OF THEM DID NOT EVEN
VOTE: AND THERE WAS GROWING DISRESPECT FOR GOVERNMENT AND OTHER
INSTITUTIONS. THE WOUNDS OPENED BY THE KENNEDY AND KING ASSASSIN-
ATIONS, VIETNAM, WATERGATE, THE FALL OF THE DOLLAR AND THE RISE OF
OPEC HAD NOT HEALED. THE GOVERNMENT WAS ISOLATED FROM THE PEOPLE
AND THE PEOPLE ALIENATED FROM IT. CONGRESS WAS PULLED IN DIFFERENT
DIRECTIONS BY INTENSE PRESSURE GROUPS. AMERICA WAS FUNDAMENTALLY
STRONG, BUT WAS AT A TURNING POINT IN ITS HISTORY. QUOTING CRITICISM
BY VISITORS TO CAMP DAVID OF HIMSELF (QUOTE MR PRESIDENT, YOU'RE
NOT LEADING THIS NATION - YOU'RE JUST MANAGING THE GOVERNMENT UNQUOTE
AND OF HIS ADMINISTRATION (QUOTE SOME OF YOUR CABINET MINISTERS DON'T
SEEM LOYAL. THERE IS NOT ENOUGH DISCIPLINE AMONG YOUR DISCIPLES
UNQUOTE), CARTER ADMITTED THAT HIS LEGISLATIVE PROPOSALS HAD
RECEIVED ONLY MIXED SUCCESS. HE DECLARED HIS INTENTION TO ACT
FIRMLY AND TO PROVIDE MORE DETERMINED LEADERSHIP IN FUTURE.

2

Prime Minister

3 useful telegrams.

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3. CARTER CALLED FOR THE REVIVAL OF AMERICAN IDEALS THROUGH A UNITED EFFORT TO TACKLE THE ENERGY CRISIS, QUOTE A CLEAR AND PRESENT DANGER TO OUR NATION UNQUOTE. NATIONAL DETERMINATION TO OVERCOME AMERICA'S QUOTE INTOLERABLE UNQUOTE DEPENDENCE ON FOREIGN OIL WOULD BE THE IMMEDIATE TEST OF THE COUNTRY'S ABILITY TO REUNITE AND RESTORE A SENSE OF CONFIDENCE AND PURPOSE. WHILE THERE WERE NO EASY OR SHORT TERM SOLUTIONS, HE WAS CONFIDENT THE COUNTRY WOULD RALLY BEHIND STRONG LEADERSHIP AND SOLVE ITS LONG RANGE PROBLEMS. QUOTE I WILL LISTEN AND I WILL ACT. WE WILL ACT TOGETHER UNQUOTE.

4. IN KANSAS CITY AND DETROIT CARTER DEVELOPED THESE THEMES, GIVING SOME ADDITIONAL DETAILS OF HIS ENERGY PROPOSALS IN KANSAS CITY

5. SEE M.I.F.T.

FCO PASS SAVING BRUSSELS, COPENHAGEN, DUBLIN, LUXEMBOURG AND THE HAGUE.

HENDERSON

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FM WASHINGTON 122007Z JULY 1979

TO ROUTINE F C O

TELEGRAM NUMBER 1910 OF 12 JULY 1979.

MY TELNO 1831: U S POLITICAL SCENE

1. PRESIDENT CARTER IS STILL AT CAMP DAVID, TO WHICH OVER 100 OFFICIAL AND UNOFFICIAL ADVISERS HAVE BEEN SUMMONED DURING THE PAST WEEK, INCLUDING STATE GOVERNORS, MEMBERS OF CONGRESS, ECONOMISTS, BUSINESSMEN, CIVIL RIGHTS LEADERS AND, LAST TUESDAY, A MULTI-DENOMINATIONAL GROUP OF RELIGIOUS LEADERS. (HE HAS ALSO SEEN BISHOP MUZOREWA).

2. LITTLE HARD INFORMATION HAS EMERGED AND CARTER SEEMS, TYPICALLY, TO HAVE GIVEN HIS INTERLOCUTORS FEW INDICATIONS OF HOW HIS MIND IS WORKING. BUT BEYOND THE IMMEDIATE PROBLEMS OF ENERGY, INFLATION AND IMPENDING RECESSION HE IS EVIDENT PRE-OCCUPIED WITH DEEPER QUESTIONS CONCERNING THE GOVERNABILITY OF THE UNITED STATES.

3. THE DOMESTIC SUMMIT IS NOW WINDING DOWN AND IT IS THOUGHT THAT CARTER MAY ADDRESS THE NATION ON SUNDAY. THERE HAS BEEN TALK OF STAFF REORGANISATION AND OF DROPPING SCHLESINGER, AND O'LEARY (NO. 2 IN THE ENERGY DEPARTMENT) HAS ANNOUNCED HIS RESIGNATION. WHITE HOUSE SPOKESMEN ARE WARNING AGAINST EXAGGERATED EXPECTATIONS OF WHAT CARTER WILL HAVE TO SAY. BUT HE HAS HIMSELF RAISED THE STAKES BY HIS RETREAT TO CAMP DAVID. LAST WEEKEND A GROUP OF 20 DEMOCRATIC STATE GOVERNORS VOTED TO ENDORSE CARTER FOR RE-NOMINATION. BUT HIS APPROVAL RATINGS IN THE POLLS ARE NOW LOWER THAN NIXON AT HIS LOWEST AND THIS IS PROBABLY HIS LAST CHANCE TO RE-ESTABLISH HIS POLITICAL CREDIBILITY.

ROBINSON.

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Prime Minister

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FM WASHINGTON 242152Z MAY 79

TO ROUTINE FCO

TELEGRAM NO 1235 OF 24 MAY

Prime Minister

new *27/5*

PRESIDENT CARTER

1. THE INDICTMENT ON 23 MAY OF BERT LANCE ON 22 ALLEGATIONS OF BANKING FRAUD AND LARGE SCALE ILLEGAL LOAN PRACTICES IS AN UNWELCOME, IF LONG EXPECTED, POLITICAL EMBARRASSMENT AND PERSONAL SETBACK FOR PRESIDENT CARTER.
2. THE INDICTMENT AND ENSUING TRIAL WILL REVIVE MEMORIES OF THE BITTER AND PROLONGED CONTROVERSY TWO YEARS AGO OVER THE PROPRIETY OF LANCE'S APPOINTMENT AS DIRECTOR OF THE OFFICE OF MANAGEMENT AND BUDGET AND HIS ROLE AS ONE OF CARTER'S CLOSEST FRIENDS AND ADVISERS (A CONTROVERSY WHICH SAPPED WHITE HOUSE MORALE AND SERIOUSLY DAMAGED THE PRESIDENT'S POLITICAL STANDING).
3. CARTER'S OWN INTEGRITY HAS NEVER BEEN SERIOUSLY IMPUGNED; BUT THE LANCE AFFAIR WEAKENS ONE OF HIS STRONGEST SUITS WITH THE ELECTORATE, HIS PERSONAL COMMITMENT TO STRINGENT ETHICAL STANDARDS IN GOVERNMENT.
4. ALTHOUGH TANGENTIAL IN ITSELF TO CARTER'S POLITICAL STANDING, THE LANCE INDICTMENT (TOGETHER WITH RELATED ALLEGATIONS, STILL UNDER INVESTIGATION, OF FINANCIAL IMPROPRIETIES DURING BILLY CARTER'S MANAGEMENT OF THE FAMILY PEANUT BUSINESS IN 1975-6) COMES AT A TIME WHEN CARTER'S DOMESTIC POLITICAL FORTUNES, AND IN PARTICULAR HIS STANDING IN CONGRESS, ARE SAGGING AGAIN. THE ADMINISTRATION HAS SUFFERED SEVERAL RECENT REVERSES ON THE HILL, IN PARTICULAR ON RHODESIAN SANCTIONS (MY TELNO 1135) AND OIL PRICE DECONTROL. AS FORECAST IN MY TEL NO 1226 THE HOUSE DEMOCRATIC CAUCUS TODAY PASSED BY 138-69 A RESOLUTION IN FAVOUR OF MAINTAINING PRICE CONTROLS AND SOME ADVOCATES OF DECONTROL ARE SHOWING THE FIRST SIGNS OF NERVOUSNESS ABOUT THE OUTLOOK IN THE SENATE. AGREEMENT ON THE FIRST CONCURRENT BUDGET RESOLUTION (DUE BY 15 MAY) HAS BEEN DELAYED BY UNEXPECTEDLY DETERMINED OPPOSITION FROM LIBERAL HOUSE DEMOCRATS TO INCREASED DEFENCE EXPENDITURE.
5. THE GOING IS LIKELY TO GET TOUGHER FOR THE REMAINDER OF THIS YEAR AS BATTLE IS JOINED IN CONGRESS ON A RANGE OF DIFFICULT LEGISLATIVE ISSUES. MANY DEMOCRATS ARE SHOWING SIGNS OF LACKING CONFIDENCE

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27/5

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THAT THE CARTER ADMINISTRATION HAS A FIRM ENOUGH GRIP ON DOMESTIC POLICY - PARTICULARLY INFLATION, ENERGY AND RELATED ISSUES (AND ARE CONSEQUENTLY MORE SUSCEPTIBLE TO CONSTITUENCY PRESSURES). THE ADMINISTRATION'S OWN RESERVES OF POLITICAL CAPITAL WILL BE STRETCHED TO THEIR UTMOST IN THE RATIFICATION OF SALT II AND OTHER ISSUES.

6. IT IS IN KEEPING WITH THIS DISCOURAGING POLITICAL SCENARIO THAT FIVE DEMOCRATIC CONGRESSMEN ANNOUNCED YESTERDAY THE ESTABLISHMENT OF A CAMPAIGN TO DRAFT SENATOR KENNEDY FOR NEXT YEAR'S PRESIDENTIAL NOMINATION. KENNEDY HIMSELF IS REPORTED TO HAVE ALL BUT ENDORSED CARTER'S RENOMINATION AT A RECENT PRIVATE MEETING OF THE DEMOCRATIC PARTY LEADERSHIP. IN PUBLIC HE MAINTAINS HIS POSITION THAT HE EXPECTS TO WORK FOR CARTER'S RENOMINATION AND RE-ELECTION IN 1980, BUT IN TERMS WHICH ARE NOT SUFFICIENTLY UNEQUIVOCAL TO DETER DISGRUNTLED DEMOCRATS FROM SEEKING TO DRAFT HIM. I STILL BELIEVE THAT KENNEDY WOULD PREFER NOT TO RUN IN 1980. BUT THIS LATEST MANIFESTATION OF DISSENT FROM WITHIN THE DEMOCRATIC PARTY IS AN UNWELCOME REMINDER TO THE WHITE HOUSE OF THE DIFFICULT CAMPAIGN WHICH THEY KNOW LIES AHEAD FOR CARTER'S RENOMINATION AND RE-ELECTION.

ROBINSON

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TO IMMEDIATE FCO

TELNO 990 OF 4 MAY

MIPT: FOREIGN POLICY ISSUES

GERMANY

1. AMERICA'S RELATIONS WITH GERMANY ARE UNDER STRAIN, FOR REASONS INCLUDING, BUT ALSO GOING BEYOND, PERSONALITY DIFFERENCES. A MORE ACTIVE AND POSITIVE BRITISH POLICY TOWARDS EUROPE AND A MORE FORWARD BRITISH POLICY ON NATO DEFENCE WILL BE WELCOMED IN WASHINGTON AS LIKELY TO GIVE GERMANY A GREATER SENSE OF PURPOSE AND SECURITY IN THE WESTERN FRAMEWORK.

POST-POLARIS

2. THE ADMINISTRATION WILL EXPECT A FAIRLY EARLY COMMUNICATION FROM HMG AT THE HIGHEST LEVEL ON THE FUTURE OF THE BRITISH DETERRENT. CARTER WILL, I AM CONFIDENT, RESPOND POSITIVELY TO PRACTICAL PROPOSALS FOR ENSURING THE CONTINUED EFFECTIVENESS OF BRITAIN'S NUCLEAR DETERRENT, THOUGH HE WILL ALSO WANT HELP ON SALT.

SALT

3. WE SHALL WANT TO BE SURE THAT THE SALT 2 TREATY, TO BE SIGNED THIS SUMMER AT A CARTER/BREZHNEV SUMMIT, DOES NOT PREJUDICE ANY VITAL BRITISH OR EUROPEAN INTEREST.

4. THE BIG QUESTION FOR SALT 3, FOR WHICH NEGOTIATIONS ARE DUE CLOSELY TO FOLLOW SALT 2, WILL BE WHETHER AND HOW TO INCLUDE GREY AREA SYSTEMS IN EUROPE. THIS MUST BE DECIDED ON ITS MERITS IN DISCUSSION WITH THE ALLIES, AND PARTICULARLY WITH BRITAIN AND GERMANY, AND NOT AS THE RESULT OF ANY IMPLIED OR TACIT US/SOVIET AGREEMENT IN SALT 2. THE AMERICANS RECOGNISE THIS AND MUCH WILL HINGE ON THE ABILITY OF THE OTHER ALLIES, ESPECIALLY GERMANY, TO DECIDE WHAT THEY WANT AS TO BOTH THE FORM AND THE SUBSTANCE OF SALT 3.

THEATRE NUCLEAR FORCE MODERNISATION

5. DECISIONS OUGHT TO BE TAKEN BY THE END OF 1979 BEFORE THE AMERICANS AND GERMANS GET INTO A PRE-ELECTION PERIOD. THE AMERICANS WILL REGARD GERMAN PARTICIPATION IN DEPLOYMENT AS ESSENTIAL, BUT THIS WILL DEPEND ON SHARED RESPONSIBILITY, SUPPORT FROM OTHER EUROPEAN ALLIES AND AN ACCEPTABLE ARMS CONTROL DIMENSION. A FIRM AND POSITIVE UK LEAD COULD DETERMINE THE OUTCOME AND WOULD BE WARMLY WELCOMED IN WASHINGTON.

CONFIDENTIAL

/ TWO-WAY

TWO-WAY STREET

6. DESPITE ALL EFFORTS TO ENSURE A MORE BALANCED TWO-WAY FLOW BETWEEN THE UNITED STATES AND EUROPEAN NATO IN THE PROVISION OF DEFENCE EQUIPMENT FOR NATO FORCES, THE BALANCE IS FOUR-ONE IN FAVOUR OF THE UNITED STATES. DESPITE THE RECENT DELETION FROM THE U S DEFENCE BUDGET OF FUNDS FOR HARRIER AV8B, WE MAY SECURE ITS REINSTATEMENT. BUT, ALTHOUGH THE ADMINISTRATION ITSELF IS GENUINELY COMMITTED TO THE AIM OF THE TWO-WAY STREET, "BUY AMERICAN" SENTIMENT AND HABIT IN CONGRESS AND IN THE U S DEFENCE INDUSTRY MEAN WE HAVE A TOUGH FIGHT.

CTB

7. THE PROSPECTS FOR A COMPREHENSIVE TEST BAN TREATY MAY WELL BE DISCUSSED AT A CARTER/BREZHNEV SUMMIT. THE AMERICANS WANT TO HOLD THE RUSSIANS TO ACCEPTING NATIONAL SEISMIC STATIONS ON SOVIET TERRITORY TO VERIFY THE TREATY. THEY SEE THE CURRENT BRITISH NEGOTIATING POSITION AS BLOCKING PROGRESS. THE CONVENTIONAL WISDOM IN THE ADMINISTRATION, NOW GRUDINGLY ACCEPTED BY THE PRESIDENT, IS THAT, FOR CONGRESSIONAL REASONS, A CTB AGREEMENT SHOULD AWAIT RATIFICATION OF SALT 2. AN EARLY INDICATION OF MINISTERS' THINKING WILL BE LOOKED FOR.

MIDDLE EAST

8. THE ADMINISTRATION WILL BE WATCHING FOR SIGNS OF ANY CHANGE IN LONDON'S POLICY ON THE EGYPT/ISRAEL TREATY. MANY AMERICANS ARE SCEPTICAL ABOUT THE PROSPECTS FOR CONVERTING THE TREATY INTO A COMPREHENSIVE MIDDLE EAST SETTLEMENT AND ARE CONCERNED ABOUT PROSPECTS IN THE ARAB WORLD. BUT CARTER PERSONALLY HAS INVESTED ENORMOUS EFFORT AND PRESTIGE IN THE NEGOTIATION OF THE TREATY AS THE KEY TO A MORE COMPREHENSIVE SETTLEMENT AND THE ADMINISTRATION ARE FIRMLY COMMITTED TO TRYING TO UNLOCK IT.

9. I DO NOT THINK THE ADMINISTRATION WILL BE SURPRISED AT DISCREET SCEPTICISM IN LONDON. INDEED, THEY COULD FIND PRESSURE FROM THE NINE CONSTRUCTIVE IN STRENGTHENING THEIR OWN HAND IN DEALING WITH ISRAEL AS THEY ATTEMPT OVER THE NEXT TWELVE MONTHS TO NEGOTIATE A SETTLEMENT FOR THE WEST BANK. IT IS NOT ALWAYS HELPFUL TO THE AMERICANS THAT THE UK SHOULD ECHO THEIR EVERY POSITION IN MIDDLE EAST POLICY WHETHER IN DISCUSSION IN THE NINE OR WITH THE ARABS THEMSELVES.

10. BUT THE ADMINISTRATION WILL WANT PRESSURE TO BE WITHIN THE BROAD APPROACH BASED ON THE EGYPT/ISRAEL TREATY. THE ONE THING THEY WOULD STRONGLY RESENT AS UNHELPFUL WOULD BE ANYTHING THAT ENCOURAGED THE ARABS AND OTHERS TO DOUBT THE SERIOUSNESS OF THE AMERICAN DETERMINATION TO WORK FOR A COMPREHENSIVE SETTLEMENT BASED INITIALLY ON PALESTINIAN AUTONOMY ON THE WEST BANK AND IN GAZA. AT THE SAME TIME, A SATISFACTORY WIDER SETTLEMENT MAY WELL PROVE MORE THAN CARTER CAN ACHIEVE IN THE TIMESCALE SET AND IN THE RUN-UP TO AN ELECTION YEAR. IF SO, THE ADMINISTRATION MAY LATER HAVE REASON TO BE THANKFUL IF SOME OF AMERICA'S ALLIES MANAGE TO MAINTAIN SUCCESSFUL RELATIONS WITH OTHER ARAB COUNTRIES (AND WITH THE PLO), PROVIDED THAT SUCCESS IS NOT PURCHASED AT THE PRICE OF HAMPERING CURRENT U S EFFORTS TO SECURE PROGRESS ON THE WEST BANK AND IN GAZA. STRATEGICALLY, THE ADMINISTRATION CARES MORE ABOUT ITS RELATIONSHIP WITH SAUDI ARABIA THAN ABOUT QUOTE THE OTHER CAMP DAVID SHOE UNQUOTE. BUT THEY ARE PERSUADABLE THAT THE LATTER IS THE KEY TO THE FORMER.

SOUTHERN AFRICA

11. THE CARTER ADMINISTRATION HAVE TAKEN A DIRECT HAND IN NEGOTIATIONS OVER RHODESIA AND NAMIBIA, AND ARE LIKELY TO WANT TO REMAIN ACTIVELY INVOLVED. CARTER AND VANCE WILL BE VERY RELUCTANT TO SEE UK AND U S POLICIES DIVERGE. POLITICAL CIRCUMSTANCES ARE CHANGING HERE AS WELL AS IN LONDON AND IN SALISBURY. THE NEXT STEP, WHICH THE ADMINISTRATION WOULD WELCOME, MAY THEREFORE BE FOR AN EARLY EXCHANGE OF VIEWS ABOUT HOW THOSE CHANGES AFFECT POLICY OPTIONS NOW THAT THE PREVIOUS PHASE HAS RUN ITS UNFULFILLED COURSE.

RHODESIA

12. THE PRESIDENT WILL HAVE TO PASS JUDGEMENT PUBLICLY ON THE RHODESIAN ELECTIONS BY THE FIRST WEEK IN JUNE AT THE LATEST AND PERHAPS AS SOON AS THE MIDDLE OF MAY. AN EARLY AND SUBSTANTIAL SHIFT TOWARDS THE INTERNAL SETTLEMENT WOULD BE DIFFICULT FOR REASONS BOTH DOMESTIC (IT WOULD PLEASE HIS PRINCIPLE OPPONENTS, ALIENATE HIS NATURAL SUPPORTERS AND FUEL THE CRITICS OF HIS "INDECISIVENESS") AND FOREIGN (HAZARDING HIS GOOD RELATIONS WITH BLACK AFRICA, INCREASING THE CHANCES OF CUBAN/SOVIET INTERVENTION AND FAILING TO END THE WAR).

13. BUT THERE WILL BE MOVEMENT IN WASHINGTON. THE ADMINISTRATION HAVE ALREADY DISTANCED THEMSELVES FROM THE ORIGINAL ANGLO-AMERICAN PLAN. CONGRESS IS LIKELY TO FORCE FURTHER ADJUSTMENT BY CHALLENGING A NEGATIVE FINDING ON THE ELECTIONS WITH A MOVE TO LIFT SANCTIONS. CARTER IS LOOKING FOR SOME POSITIVE POSTURE, WHICH WOULD INVOLVE A MODIFICATION OF EXISTING POLICY, TO PRECEDE OR COUPLE WITH A NEGATIVE FINDING ON SANCTIONS, IN ORDER TO MAXIMISE SUPPORT IN CONGRESS. NO DECISION HAS BEEN TAKEN ON THE VARIOUS OPTIONS PENDING THE OUTCOME OF OUR ELECTION. BUT THE CURRENT INCLINATION, WHILE RESISTING RECOGNITION AND THE LIFTING OF SANCTIONS, WILL BE TO POINT TO THE OBDURACY AND WORSE OF THE PATRIOTIC FRONT AND TO REST THE U S CASE, PENDING MORE FLEXIBLE COUNSELS AMONGST ZAPU, ZANU AND THE FRONT LINE STATES.

14. THE ADMINISTRATION WILL WELCOME EARLY DISCUSSION WITH US AND NEW IDEAS. BUT THEY WILL BE RELUCTANT TO ABANDON THEIR EXISITING COMMITMENT TO A CEASE-FIRE AND AN INTERNATIONALLY SUPERVISED ELECTION. MY GUESS IS THAT THE PRESENT POLICY HERE WILL BECOME UNTENABLE OVER THE NEXT FEW MONTHS. MEANWHILE, THE AMERICANS MAY WELL BE RECEPTIVE TO A SUGGESTION THAT WE AND THE AMERICANS SHOULD NOW EXPLORE WITH THE NEW LEADERS IN SALISBURY (AND WITH OTHER AFFECTED STATES) WHAT PRACTICAL IDEAS THEY HAVE FOR ENDING THE FIGHTING AND NORMALISING RELATIONS WITH OTHER AFRICAN STATES. NAMIBIA AND APARTHEID

15. THE ADMINISTRATION ARE TAKING A LONGER VIEW OF THE TIMETABLE FOR CHANGE IN SOUTH AFRICA.

16. ON NAMIBIA THE PRESIDENT HAS ALREADY WARNED SOUTH AFRICA THAT SANCTIONS "WOULD BE INEVITABLE" IF IT BLOCKED PROGRESS, THOUGH U S SUPPORT FOR SANCTIONS STILL REMAINS AN OPEN QUESTION IN PRACTICE. A BRITISH VETO WOULD SUIT NARROW U S INTERESTS WELL; IT WOULD GIVE THEM A FREE RIDE IN SOUTH AFRICA AT OUR EXPENSE IN BLACK AFRICA. BUT MR VANCE AND THE PRESIDENT WOULD PREFER TO KEEP WESTERN POLICIES IN STEP.

NORTHERN IRELAND

17. THERE ARE UNREALISTIC EXPECTATIONS OF NEW INITIATIVES FROM LONDON FOLLOWING THE ELECTIONS. THERE WILL ALSO CERTAINLY BE UNREALISTIC "INITIATIVES" FROM HERE. WE CAN EXPECT THE ADMINISTRATION (WHO HAVE NO ILLUSIONS ABOUT THE POSSIBILITY OF EARLY DRAMATIC PROGRESS) TO MAINTAIN THEIR PRESENT GENERALLY SYMPATHETIC ATTITUDE. BUT KENNEDY, O'NEILL ET AL ARE DETERMINED TO

MAKE A MOVE. NORTHERN IRELAND IS INCREASING AS A PUBLIC RELATIONS PROBLEM WITH SECTIONS OF THE AMERICAN PUBLIC AND CONGRESS, WITH IMPLICATIONS FOR ARMS TRANSFERS AND FINANCIAL CONTRIBUTIONS TO THE I R A. THE ONLY POTENTIALLY EFFECTIVE COUNTER-VAILING FORCE HAS BEEN THE LEADERSHIP OF PROMINENT IRISH-AMERICANS LIKE KENNEDY, O'NEILL, MOYNIHAN AND CAREY. IT IS ESSENTIAL TO APPRECIATE THAT THEIR POLITICAL IMPERATIVES DERIVE NOT FROM EVENTS AND ISSUES IN IRELAND, NORTH OR SOUTH, BUT FROM IRISH-AMERICAN POLITICS HERE. INDEED CAREY RECENTLY REBUKED A REPRESENTATIVE FROM DUBLIN QUOTE THREE THOUSAND MILES AWAY UNQUOTE FOR PRESUMING TO TELL HIM WHAT WAS WHAT ON THE IRISH QUESTION. OUR POLICIES CANNOT OF COURSE BE DETERMINED BY IRISH-AMERICAN POLITICS AND THERE IS NO DANGER OF THE CARTER ADMINISTRATION BECOMING INVOLVED IN PRESSURE ON US. BUT INSOFAR AS WE WANT HELP FROM THE MODERATES THEIR ABILITY TO DELIVER WILL DEPEND ON OUR ABILITY TO HELP THEM TO HELP US BY ENABLING THEM TO CLAIM THAT QUOTE POLITICAL PROGRESS UNQUOTE IS BEING MADE, PREFERABLY THANKS TO THEIR EFFORTS. OTHERWISE, AS HAS HAPPENED OVER THE LAST TWO YEARS THE GROUND IS CUT FROM UNDER THEIR FEET IN RELATION TO THEIR OWN CONSTITUENTS, WHO STILL AND WILL INDEFINITELY BELIEVE THAT THE ISSUE IS A BRITISH VERSUS IRISH PROBLEM, AS DURING THE CENTURIES OF THEIR FOLK-MEMORIES, RATHER THAN AN INTERCOMMUNAL PROBLEM IN ULSTER. MANY, INCLUDING SOPHISTICATES, STILL BELIEVE THAT DUBLIN IS A SUBORDINATE GOVERNMENT UNDER AND DERIVING ITS REVENUES FROM LONDON.

TURKEY

18. THE AMERICANS ARE DEEPLY CONCERNED OVER THE THREAT TO N A T O'S SOUTHERN FLANK POSED BY THE CURRENT POLITICAL AND ECONOMIC SITUATION IN TURKEY. IN THE LIGHT OF THE NEW GOVERNMENT'S WELCOME READINESS TO DO MORE TO STRENGTHEN N A T O, THE AMERICANS WILL EXPECT A SUBSTANTIALLY LARGER U K CONTRIBUTION TO THE TURKISH AID PACKAGE THAN THE DOLLARS 15 MILLION H M G HAVE SO FAR OFFERED, AT LATEST WHEN THE QUESTION IS DISCUSSED AT TOKYO SUMMIT.

DEFENCE SALES TO CHINA

19. THE ADMINISTRATION HAVE FEARED THAT U K AND OTHER EUROPEAN DEFENCE SALES TO CHINA WOULD COMPLICATE U S RELATIONS WITH THE SOVIET UNION AND CHINA. THE AMERICANS WOULD THEREFORE MUCH PREFER THAT WE TAKE DECISIONS IN THIS FIELD BY OURSELVES, WITHOUT EXPECTING U S APPROVAL. THEY HAVE NOT YET RECONCILED THIS POSITION WITH THEIR WISH NOT TO UNDERMINE COCOM.

SEE N I F T.

JAY.

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Prime Minister
2 important telegrams
from Peter Jay.
BM
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THE OUTLOOK FOR U.S. DOMESTIC AND FOREIGN POLICY.

1. ALTHOUGH THE 1980 PRESIDENTIAL AND CONGRESSIONAL ELECTIONS ARE STILL EIGHTEEN MONTHS AWAY, THEY ARE ALREADY CASTING A GROWING SHADOW OVER THE CONDUCT AND AMBIENCE OF AMERICAN POLITICS, AND THIS WILL BECOME MORE PRONOUNCED IN THE MONTHS AHEAD.

DOMESTIC POLITICS.

2. PRESIDENT CARTER'S CHARACTER IS SUCH THAT NARROW ELECTORAL CALCULATIONS WILL NEARLY ALWAYS TAKE SECOND PLACE IN HIS DECISIONS TO HIS OBJECTIVE JUDGEMENT OF THE MERITS OF A GIVEN ISSUE. BUT ALTHOUGH THE PRESIDENT HAS NOT YET FORMALLY DECLARED HIS INTENTION TO RUN AGAIN, THE ELECTION WILL BECOME PROGRESSIVELY HARDER TO IGNORE. CARTER'S PERCEIVED VULNERABILITY, WHICH HAS ALREADY ATTRACTED A LARGE FIELD OF REPUBLICAN PRESIDENTIAL CONTENDERS, MEANS THAT FROM THE BEGINNING OF 1980 HE WILL HAVE TO CAMPAIGN HARD FOR THE DEMOCRATIC NOMINATION AGAINST A DETERMINED CHALLENGE FROM GOVERNOR JERRY BROWN OF CALIFORNIA AT A TIME WHEN HIS DOMESTIC AND FOREIGN POLICIES COULD BE UNDER SEVERE STRAIN (PRESENT INDICATIONS ARE THAT ON EVERY OBJECTIVE CALCULATION SENATOR KENNEDY WOULD PREFER TO WAIT UNTIL 1984, ONLY ENTERING - AND ALMOST CERTAINLY WINNING - THE 1980 NOMINATION RACE IF HE JUDGES THAT THERE IS AN ACUTE DANGER OF BROWN UPSETTING CARTER). IT ALSO MEANS THAT THE ADMINISTRATION'S POLICIES WILL FACE A PROGRESSIVELY ROUGHER RIDE IN AN ALREADY ASSERTIVE, UNPREDICTABLE AND BALKANISED CONGRESS; REPUBLICAN COOPERATION (HITHERTO OFTEN ESSENTIAL TO CARTER ON FOREIGN POLICY ISSUES) WILL BE HARDER TO SECURE, WHILE REPUBLICAN CRITICISM WILL BE MORE STRIDENT; AND MANY OF THE UNUSUALLY LARGE NUMBER OF DEMOCRATIC SENATORS FACING RE-ELECTION IN 1980 AGAINST STRONG REPUBLICAN CHALLENGES WILL THINK TWICE ABOUT CASTING ELECTORALLY RISKY VOTES ON DIFFICULT ISSUES.

3. THE OVER-RIDING DOMESTIC ISSUE WILL CONTINUE TO BE INFLATION WHICH, AS I EXPECTED, IS NOW BACK IN DOUBLE DIGITS. AS ONE RESPONSE TO THIS THE PRESIDENT HAS PROCLAIMED A STRATEGY OF FISCAL CONSERVATISM, TAKING GROUND AWAY FROM THE REPUBLICANS AT THE PRICE OF DISCOMFORTING HIS LIBERAL DEMOCRATIC SUPPORTERS. BUT HIS VOLUNTARY COUNTER INFLATION POLICY, INITIATED LAST OCTOBER, NOW ENJOYS SCANT CREDIBILITY. IN THIS FIELD THE PRESIDENT FACES A REAL POLICY DILEMMA BECAUSE OF THE UNCERTAINTY THAT EXISTS ABOUT THE COURSE OF THE ECONOMY OVER THE NEXT TWELVE MONTHS. HE CAN DECIDE TO TAKE NO FURTHER ACTION (THOUGH THE FED MAY BE FORCED TO RAISE INTEREST RATES SUBSTANTIALLY), IN THE BELIEF THAT THE SEEDS OF RECESSION ARE ALREADY SOWN AND THAT RECESSION WILL BRING A SLOWING OF PRICE INCREASES. BUT, IF HE IS WRONG, HE MAY HAVE TO TAKE HASTY ACTION LATER THIS YEAR TO COOL THE ECONOMY AND CONCEIVABLY TO ACCEPT A MANDATORY PAY AND PRICE POLICY. EITHER WAY SUBSTANTIALLY TIGHTER MONETARY AND, LATER, FISCAL POLICY BY THE END OF THE YEAR MAY HAVE THE EFFECT OF PUSHING THE ECONOMY INTO A DEEP RECESSION IN 1980-81, PRODUCING UNEMPLOYMENT WHICH WOULD ALIENATE MANY TRADITIONAL DEMOCRATIC SUPPORTERS. THE ADMINISTRATION ARE AWARE THAT THEY ARE SEEKING TO TREAD A VERY NARROW PATH BETWEEN THE PERILS OF INFLATION AND RECESSION, THE TRUTH OF COURSE BEING THAT THERE PROBABLY IS NO SUCH PATH AND THAT THE US IS DOOMED TO PAY THE PRICE FIRST IN DOUBLE-DIGIT INFLATION AND THEN IN DEEP RECESSION FOR NOT HAVING BEGUN DISINFLATION IN 1977.

4. BY CONTRAST THE PRESIDENT'S RECENT DECISION IN FAVOUR OF PHASED DEREGULATION OF OIL PRICES, ACCOMPANIED BY, BUT NOT DEPENDENT ON, A TAX ON THE RESULTING OIL COMPANY PROFITS, IS A DECISIVE MOVE TO TACKLE THE US ENERGY PROBLEM IN THE ONLY WAY IT CAN BE TACKLED, THROUGH THE PRICE-MECHANISM. THE APPARENT CONFLICT WITH COUNTER-INFLATION POLICY IS SMALL AND UNAVOIDABLE. THE ODDS ARE THAT HE WILL SECURE CONGRESSIONAL APPROVAL FOR SOME FORM OF OIL TAXATION, BUT THERE WILL BE A TOUGH STRUGGLE, WHICH MAY LAST INTO 1980, OVER THE ALLOCATION OF THE REVENUE. THE POLITICAL COST MAY BE HEAVY, PARTICULARLY IF THERE ARE PETROL SHORTAGES THIS SUMMER, AND THE SUBSTANTIVE BENEFITS SLOW TO ARRIVE. BUT THE ENERGY GAINS OF DEREGULATION DO NOT IN ANY WAY DEPEND ON THE WINDFALL PROFITS TAX AND FROM NOW ON THE PRICE MECHANISM WILL BE WORKING INEXORABLY FOR RATIONAL ENERGY BEHAVIOUR IN THE PRIVATE SECTOR.

ANOTHER IMPORTANT ISSUE IN CONGRESS THIS YEAR WILL BE PASSAGE OF THE LEGISLATION IMPLEMENTING THE MTNS. WE MAY EXPECT A KEEN STRUGGLE ON SEVERAL CRITICAL POINTS, AS PROTECTIONIST INTERESTS WILL FIGHT HARD TO WEAKEN THE EFFECT OF THE AGREEMENT. BUT THE OMENS ARE REASONABLY GOOD FOR CONGRESSIONAL APPROVAL OF THE MTN PACKAGE IN SEPTEMBER.

FOREIGN AFFAIRS.

6. THE EVIDENCE FROM THE OPINION POLLS OF LOW PUBLIC CONFIDENCE IN THE PRESIDENT'S CONDUCT OF FOREIGN AFFAIRS, EXEMPLIFIED IN POPULAR UNEASE AT SOVIET MILITARY EXPANSION, APPARENT US IMPOTENCE IN THE FACE OF SOVIET ADVENTURISM IN AFRICA AND ELSEWHERE AND THE CIRCUMSTANCE AND CONSEQUENCES OF THE "LOSS OF IRAN" (BUT ACCOMPANIED, PARADOXICALLY, BY STRONG PUBLIC SUPPORT FOR THE SUBSTANCE OF THE PRESIDENT'S FOREIGN POLICIES), HAS LED HIS REPUBLICAN CHALLENGERS TO SEIZE ON FOREIGN POLICY AS A PROMISING ELECTORAL ISSUE. THEY ARE STRONG ON RHETORICAL ATTACKS ON THE PRESIDENT'S INEFFECTIVENESS, VACILLATION AND LACK OF LEADERSHIP; BUT SHORT ON CREDIBLE ALTERNATIVE POLICIES ON SPECIFIC ISSUES. FOR HIS PART, THE PRESIDENT HAS WON UNIVERSAL PRAISE (AND REPAIRED HIS RELATIONS WITH THE ELECTORALLY IMPORTANT AMERICAN JEWISH COMMUNITY) FOR HIS PART IN BRINGING ABOUT THE PEACE TREATY BETWEEN EGYPT AND ISRAEL; BUT THE JOY WHICH ACCOMPANIED CAMP DAVID I HAS BEEN DIMMED THIS TIME BY INCREASED PUBLIC AWARENESS OF THE OBSTACLES TO A WIDER MIDDLE EAST SETTLEMENT AND THE DANGERS TO U.S. INTERESTS OF ANTAGONISING THE REST OF THE ARAB WORLD.

7. THE FUTURE FOREIGN POLICY AGENDA IS DOMINATED BY SENATE RATIFICATION OF THE SALT II TREATY. THIS WILL BE A BITTER AND PROLONGED BATTLE, WHICH NOW LOOKS UNLIKELY TO BE RESOLVED THIS YEAR AND IN WHICH THE ATTITUDES OF AMERICA'S NATO ALLIES WILL PLAY AN IMPORTANT AND PERHAPS CRUCIAL PART. THE OUTCOME IS STILL UNPREDICTABLE. THE OPTIMISTIC ASSESSMENT IS THAT THE TREATY WILL ULTIMATELY BE APPROVED BY THE SENATE SUBJECT TO A SERIES OF DECLARATORY AND ESSENTIALLY COSMETIC ADDITIONS AND RESERVATIONS WHICH WILL BE ACCEPTABLE TO BOTH THE PRESIDENT AND THE RUSSIANS. BUT THERE IS A REAL RISK THAT THE VOTES OF THIRTY-FOUR SENATORS COULD FRUSTRATE ALL THE EFFORT WHICH HAS BEEN PUT INTO THE CENTREPIECE OF U.S./SOVIET RELATIONS OVER THE PAST SIX YEARS.

ULTIMATELY THE FATE OF SALT II IS LIKELY TO TURN ON THE STANDING OF THE PRESIDENT AND HIS ABILITY TO MOBILISE POPULAR SUPPORT FOR THE TREATY. RATIFICATION BY THE SENATE WOULD BOTH REFLECT AND ENHANCE HIS POLITICAL STRENGTH IN THE COUNTRY. REJECTION WOULD BE A RESOUNDING DEFEAT AND THE SALT DEBATE AND THE PRESIDENT'S REELECTION CAMPAIGN ARE LIKELY TO INTERACT ON EACH OTHER.

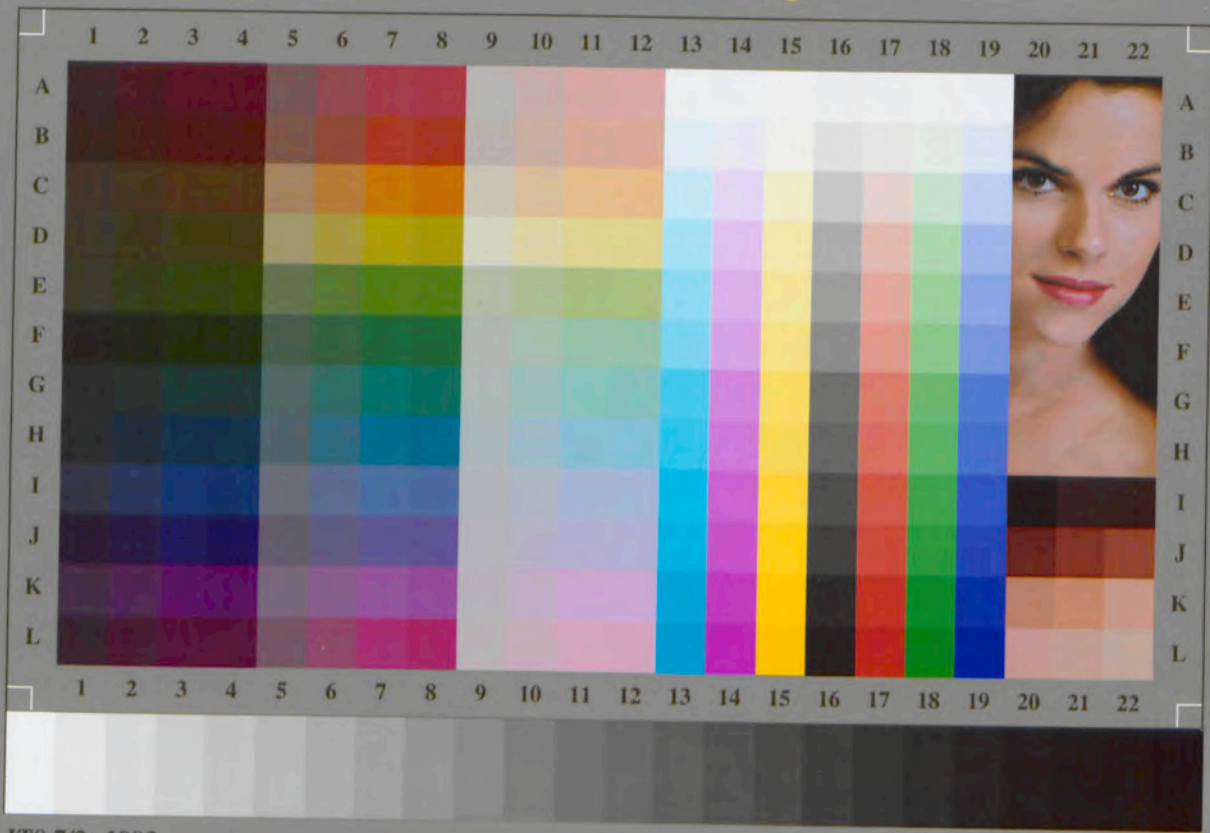
8. THE ADMINISTRATION EXPECTS A CONSERVATIVE GOVERNMENT TO BE DIFFERENT FROM ITS PREDECESSORS ON A NUMBER OF FOREIGN POLICY ISSUES. I DEAL WITH SOME SPECIFIC QUESTIONS IN M.I.F.T.

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