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TEL NO 1831 OF 6 JULY

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ST LOUIS.

Prime Ministerans
9/7THE US POLITICAL SCENE AND THE TOKYO SUMMIT. *ans*

1. LATE ON 4 JULY THE WHITE HOUSE ANNOUNCED THAT THE PRESIDENT HAD CANCELLED A NATIONWIDE BROADCAST ON THE ENERGY SITUATION WHICH HE WAS TO HAVE DELIVERED THE FOLLOWING EVENING. NO EXPLANATION WAS GIVEN FOR THIS UNPRECEDENTED ACTION AND NO NEW DATE FOR THE BROADCAST HAS SO FAR BEEN ANNOUNCED. THE PRESIDENT HAS GONE INTO RETREAT AT CAMP DAVID, WHERE HE IS EXPECTED TO SPEND SEVERAL MORE DAYS REVIEWING THE ECONOMIC AND ENERGY SITUATION PREPARATORY TO A MAJOR POLICY STATEMENT.
2. IN TWO BRIEF STATEMENTS ON 5 JULY JODY POWELL, THE WHITE HOUSE SPOKESMAN, SAID THAT
 - (A) PURSUANT TO THE AGREEMENTS REACHED AT THE TOKYO SUMMIT, THE PRESIDENT QUOTE INTENDS TO PROPOSE AT AN EARLY DATE A SERIES OF STRONG MEASURES TO RESTRAIN US DEMAND FOR IMPORTED OIL UNQUOTE AND
 - (B) THE PRESIDENT WAS IN THE PROCESS OF QUOTE ASSESSING MAJOR DOMESTIC ISSUES WHICH HE BELIEVES ARE IMPORTANT TO THE COUNTRY AND WHICH INCLUDE, BUT GO BEYOND, THE QUESTION OF ENERGY UNQUOTE. THE PRESIDENT WOULD CONSULT QUOTE A NUMBER OF INDIVIDUALS WHOSE JUDGEMENT HE RESPECTS BOTH IN AND OUTSIDE THE GOVERNMENT. UNQUOTE.
3. THE ANTICLIMAX OF THE CANCELLATION OF THE PRESIDENT'S BROADCAST (FOR WHICH HE HAD RETURNED EARLY FROM KOREA, CANCELLING A PLANNED THREE DAY HOLIDAY) AND THE ENSUING SPECULATION ABOUT SERIOUS POLICY DIFFERENCES WITHIN THE ADMINISTRATION HAVE REINFORCED THE IMAGE OF AN ADMINISTRATION IN DISARRAY AND UNABLE EITHER CREDIBLY TO EXPLAIN OR TO DEAL WITH GASOLINE SHORTAGES AND A WORSENING ECONOMIC OUTLOOK. THIS IS WIDELY SEEN AS A CRITICAL POINT IN CARTER'S PRESIDENCY.

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4. MEANWHILE, THE ECONOMIC OUTLOOK HAS DETERIORATED MARKEDLY THE LAST FEW WEEKS. IT NOW SEEMS CLEAR THAT GNP FELL IN THE SECOND QUARTER AND THERE IS WIDESPREAD AGREEMENT THAT THE ECONOMY IS ENTERING A RECESSION WHICH IS LIKELY TO LAST FOR THE REST OF THIS YEAR AND PROBABLY EXTEND INTO 1980. UNEMPLOYMENT HAS NOT YET BEGUN TO RISE, BUT CAN HARDLY FAIL TO DO SO IN THE NEXT SIX OR NINE MONTHS IF THESE EXPECTATIONS ARE CORRECT. IT IS AN OPEN QUESTION WHETHER THE ECONOMY WILL SEE SOME RECOVERY IN TIME TO HAVE SOME EFFECT ON NEXT YEAR'S ELECTION.

5. AT THE SAME TIME, THE OIL SITUATION IS DASHING HOPES THAT INFLATION MIGHT BE BROUGHT DOWN IN THE SECOND HALF OF 1979. SO FAR THIS YEAR IT HAS BEEN RUNNING AT AN ANNUAL RATE OF OVER 13 PER CENT AND THERE IS NOW LITTLE DOUBT THAT IT WILL REMAIN IN DOUBLE FIGURES FOR AT LEAST ANOTHER SIX MONTHS. THE COMBINATION OF HIGH INFLATION AND RISING UNEMPLOYMENT IS BOUND TO CREATE A PECULIARLY DIFFICULT POLICY DILEMMA. THE PRESIDENT AND HIS ADVISERS WILL PROBABLY BE RELUCTANT TO RESORT TO TAX CUTS OR OTHER EFFORTS TO STIMULATE THE ECONOMY BECAUSE OF THE INFLATION; BUT VOICES ARE ALREADY BEING RAISED IN THE CONGRESS FOR TAX CUTS.

6. A WEEK BEFORE THE VIENNA SUMMIT A NEW YORK TIMES POLL SHOWED CARTER'S APPROVAL RATING DOWN FROM 42 PER CENT IN JANUARY AND MARCH TO 30 PER CENT IN JUNE, ITS LOWEST POINT YET. THE VIENNA AND TOKYO SUMMITS DID NOTHING TO IMPROVE HIS STANDING. CARTER HAS WON GRUDGING PRAISE FOR APPARENTLY AVOIDING MISTAKES IN VIENNA. BUT THE SIGNATURE OF THE SALT II AGREEMENT WAS SEEN IN DOMESTIC POLITICAL TERMS AS LITTLE MORE THAN THE ESSENTIAL PRELIMINARY TO THE BRUISING RATIFICATION DEBATE WHICH OPENS FORMALLY ON 9 JULY. THE TOKYO SUMMIT WAS UPSTAGED IN THE US PRESS BY THE CONCURRENT OPEC MEETING, REFLECTING THE AMERICAN PUBLIC'S OBSESSION WITH THE INCONVENIENCE OF LENGTHENING QUEUES AT PETROL STATIONS. THERE IS A WIDE SPREAD FEELING THAT CARTER HAS BEEN GIVING TOO MUCH TIME AND ATTENTION TO FOREIGN AFFAIRS WHEN HE SHOULD HAVE BEEN GRAPPLING WITH ENERGY AND THE ECONOMY AT HOME. THE LATEST POLLS SHOW CARTER FALLING BEHIND REAGAN AND FORD FOR THE FIRST TIME. WITHIN THE DEMOCRATIC PARTY A QUOTE DRAFT KENNEDY UNQUOTE MOVEMENT IS SPREADING, ALTHOUGH STILL AT A LOW LEVEL.

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7. THE CIRCUMSTANCES SURROUNDING THE CANCELLATION OF THE 5 JULY SPEECH AND WHAT IS NOW BEING DESCRIBED AS THE PRESIDENT'S QUOTE DOMESTIC SUMMIT UNQUOTE AT CAMP DAVID HAVE DRAMATISED THE PRESIDENT'S SITUATION. HE IS SEEN AS HAVING GIVEN HIMSELF A MAKE OR BREAK CHANCE TO CONVINCE THE COUNTRY AND THE CONGRESS THAT HE IS CAPABLE OF FORMULATING BOLD AND EFFECTIVE POLICIES AND HAS THE SKILL AND FORTITUDE TO CARRY THEM THROUGH. BOTH WILL BE EXTREMELY DIFFICULT THERE ARE NO EASY OR EFFECTIVE STEPS IN PROSPECT, AND CARTER'S CAPACITY TO FOLLOW UP HIS DOMESTIC POLITICAL INITIATIVES IS NOT HIS STRONGEST SUIT. IF HE FAILS TO CARRY CONVICTION, THE WORSENING ECONOMIC POSITION AND PARTICULARLY THE ENERGY OUTLOOK (SEE MIFT) WILL MAKE HIS POLITICAL POSITION LOOK INCREASINGLY BLEAK.

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